THE FREEMAN
Ideas On Liberty
September 2004 Vol. 54, No. 7

2 *FROM THE PRESIDENT*—Democracy, Freedom, and the Market *by Richard M. Ebeling*

4 *PERSPECTIVE*—Is Neuroscience Blind? *by Sheldon Richman*

6 We're Running Out of Oil? It Just Ain't So! *by John Jennrich*

*Leonard E. Read*

## FEATURES

8 The Lesser of Two Evils *by Leonard E. Read*

14 Interest Rates and the Federal Reserve *by Richard M. Ebeling*

18 Higher $CO_2$, More Global Warming, and Less Extinction? *by Christopher Lingle*

20 Free Trade's Never-Ending Battle *by Arthur E. Foulkes*

24 Twisting Economics Against Immigrants *by P. Gardner Goldsmith*

28 How Unions Are Bankrupting California *by Steven Greenhut*

34 Where in the World Can You Find Economic Freedom? *by George C. Leef*

37 The Facts about World Hunger *by Jim Peron*

40 Capital Letters

*Frédéric Bastiat*

## COLUMNS

16 *THOUGHTS ON FREEDOM*—Playing by the Rules *by Donald J. Boudreaux*

22 *PERIPATETICS*—Flight from Responsibility *by Sheldon Richman*

32 *OUR ECONOMIC PAST*—The Great Horse-Manure Crisis of 1894 *by Stephen Davies*

47 *THE PURSUIT OF HAPPINESS*—Traitor or Trader? *by Russell Roberts*

## BOOK REVIEWS

42 **The Company of Strangers: A Natural History of Economic Life** by Paul Seabright, reviewed by Richard M. Ebeling; **Saying Yes: In Defense of Drug Use** by Jacob Sullum, reviewed by Paul Armentano; **The War Against Excellence** by Cheri Pierson Yecke, reviewed by George C. Leef; **A History of the Federal Reserve, Volume I: 1913–1951** by Allan H. Meltzer, reviewed by Christopher Mayer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

by Richard M. Ebeling

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Democracy, Freedom, and the Market

Last April the mayor of Ilave, Peru, was dragged out of a town council meeting by a mob of local citizens who severely beat and then lynched him. Four other councilmen escaped with their lives, but were all injured in the attack. They were accused by the attackers of corruption, bribery, and a failure to deliver on electoral promises of better government social services in the community.

Around the same time, the United Nations released a new study on the current status of and future challenges to democracy in Latin America. The authors conducted detailed research in 18 countries, including surveys of 20,000 people and interviews with 231 prominent political leaders.

Among the results was the discovery that 54.7 percent of the people surveyed said they would willingly support an authoritarian regime over a democratic one if such rule could "solve" the economic problems facing their countries. The *New York Times* (June 24) quoted the son of one of the individuals accused of lynching the mayor of Ilave as saying, "I believe in an authoritarian government, if it works. They do this in other countries and it works. Look at Cuba, that works. Look at Pinochet in Chile, that worked."

The UN report, "Democracy in Latin America: Toward a Citizens' Democracy," found that only 43 percent of respondents are fully committed to democracy, while 26.5 percent hold "non-democratic" views and 30.5 percent express "ambivalence" about the type of political regime they live under.

The authors concluded that democratically elected governments were failing to satisfy the "political, social and economic aspirations of Latin Americans." For these aspirations to be fulfilled, they said, democracy must be "deepened" through an expansion of "social citizenship," in other words, governments' efforts to combat poverty and inequality. Besides guarding people's civil rights (defined as "guarantees against oppression") and political rights (defined as "be[ing] part of public or collective decision-making"), it was essential, they argued, that there also must be protection of "social rights" (defined as "access to well-being"). Under the category of "social rights," they call for "greater diversity and flexibility of economic policy options," including a "diversity of forms of market organization." They lament that the democratic system, which "is virtually a synonym for equality[,] exists side by side with the highest level of inequality in the world."

In more direct language, the authors are claiming that the success of democracy in Latin America depends on the extension of the welfare state, as well as greater government regulation and control of the market economy. And furthermore, by implication, a democratic system that does not encompass such "social rights" fails to pro-

*Richard Ebeling (rebeling@fee.org) is the president of FEE. His latest book is* Austrian Economics and the Political Economy of Freedom *(Elgar).*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

vide the population with true and meaningful "freedom."

Whatever value this UN report might have in depicting public opinion in Latin America, the authors' assumptions and conclusions continue to propagate a number of incorrect and indeed dangerous ideas. Put simply, democracy is not the same thing as freedom, and true freedom does not require the interventionist welfare state—in fact, the latter is fundamentally inconsistent with human liberty and the free society. The real scourge in all of these countries is the degree to which their governments already control and manipulate the economic and social affairs of their citizens. But it is freedom and the market economy that are wrongly blamed for the corruptions and distortions created by the interventionist state.

## Monarchical Rule

Democracy has become identified with freedom because of the historical fact that in the eighteenth and nineteenth centuries the advocates of liberty often fought against regimes in which kings and noblemen claimed the right to rule over majorities without their consent. The right of the majority to have a say over their political destiny was seen to be an essential element in men's freedom from arbitrary power and abuse at the hands of a few.

But basically democracy is only a device through which the decision as to who holds political office can be made peacefully. Electoral decision-making is premised on the idea that it is better for the majority to determine the outcome than the minority.

But the device for selecting officeholders tells nothing about what those elected are to do with their political power. From the time of the ancients it has been understood that a democratic majority can be as cruel and tyrannical as even the worst imaginable dictatorship or oligarchy. The entire history of the evolution of political constitutions shows that governments, even those duly elected by democratic majorities, must be restrained in what they are permitted to do.

The reason for this—the formulation of which is the great and lasting contribution of the classical-liberal thinkers of the eighteenth and nineteenth centuries—is the realization that rights reside in individuals, not in collectives. Neither minorities nor majorities should have the authority or power to abridge the freedom of individuals to peacefully live their lives as they choose in voluntary interaction with others.

"Civil society" is the term given to the network of relationships men form for mutual and cooperative improvement of their lives through free association. And "market economy" is the term that refers to the network of exchange relationships in a division of labor through which men achieve gains from trade to better their lives.

Neither civil society nor the market economy is consistent with the interventionist welfare state. Whether imposed by minorities or majorities, political intervention in market transactions and government policies that coercively take what some have peacefully earned in order to reassign it to others, by necessity, violate freedom.

If the UN report is correct about a growing disillusionment with democracy in Latin America, it is because large segments of those populations expect the governments they elect to benefit them at the expense of others. When the governments instead use their regulatory and redistributive powers to benefit influential minorities close to those in political authority, frustrated "majorities" conclude that democracy has "failed" because the resulting plunder has passed into hands other than their own. They have been denied the "freedom" to gain something through government at others' expense. And even worse, the minority they expected to plunder has been able to use the power of the state to plunder them.

If authoritarian regimes return to Latin America, as the UN report suggests is the danger, it will not be freedom or the market that will have failed. It will have been the "democratic" interventionist state. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (800) 960-4FEE; (914) 591-7230
Fax: (914) 591-8910; E-mail: freeman@fee.org
FEE Home Page: www.fee.org

*President:* Richard M. Ebeling

*Editor:* Sheldon Richman

*Managing Editor:* Beth A. Hoffman

*Editor Emeritus*
Paul L. Poirot

*Book Review Editor*
George C. Leef

*Columnists*

Charles W. Baird
Donald J. Boudreaux
Stephen Davies
Burton W. Folsom, Jr.
Robert Higgs
Lawrence W. Reed
Russell Roberts
Thomas Szasz
Walter E. Williams

*Contributing Editors*

Doug Bandow
Norman Barry
Peter J. Boettke
James Bovard
Thomas J. DiLorenzo
Joseph S. Fulda
Bettina Bien Greaves
John Hospers
Raymond J. Keating
Daniel B. Klein
Dwight R. Lee
Wendy McElroy
Tibor R. Machan
Andrew P. Morriss
Ronald Nash
Edmund A. Opitz
James L. Payne
William H. Peterson
Jane S. Shaw
Richard H. Timberlake
Lawrence H. White

Foundation for Economic Education
*Board of Trustees, 2004–2005*

David Humphreys
*Chairman*
Paige K. Moore
*Secretary*
Frederick C. Foote
*Vice Chairman*
Dan Grossman
*Treasurer*

Henry M. Bonner
Lloyd Buchanan
Walter LeCroy
Kris A. Mauren
Tom G. Palmer
Roger Ream
Andrea Millen Rich
Sally von Behren
Guillermo M. Yeatts

*The Freeman* is published ten times a year by the Foundation for Economic Education, Irvington-on-Hudson, NY 10533. FEE is a non-political, non-profit educational champion of private property, the free market, and limited government.

Copyright © 2004 Foundation for Economic Education. All rights reserved. Reproduction or use, without permission, of editorial or graphic content is prohibited.

A simple contribution of $39 or more annually will bring each issue of *The Freeman* to your door. For foreign delivery, please add $10.

*The Freeman* is available on microfilm from University Microfilm International, 300 North Zeeb Road, Ann Arbor, MI 48106.

Cover photo: Leonard E. Read (1898–1983)

PERSPECTIVE

## Is Neuroscience Blind?

Researchers in England claim they now understand why love is "blind," that is, why people tend not to see faults in their loved ones. According to British psychiatrist Raj Persaud's newspaper commentary on the research, the answer is that, for evolutionary reasons, "strong emotional ties to another person . . . affect the brain circuits involved in making social judgments about that person. . . . So love really is blind and there is a biological basis for the blindness."

Persaud is impressed by the work of researchers Andreas Bartels and Semir Zeki: "This is a profound finding in the history of our attempts to *understand* this most profound and powerful human emotion. It means neuroscience finally *explains* a puzzle that has flummoxed artists from Shakespeare to Sinatra attempting to interpret love, which is why we can't see the faults in our partners or children which others can clearly perceive. . . ." (Emphasis added.)

A profound finding that explains a puzzle? How could it be, when in fact it is no explanation at all for why people behave a particular way? It's *reductionism*, not explanation—like "explaining" why houses are built by reference to the physics of hammering nails into wood and other such processes.

Undoubtedly areas of the brain activate and de-activate when we look at our wives or husbands and our children. And at some level it's interesting to know which parts do which. But having that information is not the same as understanding love; nor does it explain the alleged "puzzle" over why we "can't see" the faults of our loved ones. Is that generalization even true? Are we really blind to the faults, or do we simply accept them as the price paid for greater perceived benefits? Of course, strong feelings can influence or cloud judgment. But with effort people are capable of achieving a reasonable degree of objectivity. They do it routinely.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Dubious premise aside, it's not the neuroscientific findings that I'm interested in challenging, but the *interpretation* of the findings, which is not a matter of neuroscience at all. Obviously we use our brains when we act or think or feel emotions. And that's the point. *We use* our brains. Our brains don't use us. Of course we don't directly activate or de-activate this or that area of our brains in the same way that we move our limbs. But we *indirectly* do so when we engage in various activities.

When a man thinks of his wife or children, no doubt he causes some areas of his brain to change from their previous state. But the changes do not *explain* what he has done, what he experiences, or why.

Nor do the changes explain why he ignores or fails to notice his loved ones' faults. Yes, the changes *describe* something relevant going on, but that is not the same as an explanation. The words relevant to a real explanation include "intend," "choose," and "value," not "pre-frontal cortex" and "magnetic resonance imaging." That is, the explanations lie in the realms of praxeology (the study of human action qua choice) and biography, *not neurophysiology*. We cannot hope to understand persons (as opposed to bodies) if we bypass the first two disciplines and focus on the last.

This has important ethical and political implications, because the more that neuroscience eclipses praxeology and biography in "explaining" human action, the more that individual liberty and self-responsibility are threatened. Robots don't need these things. Persons do. That's why when it comes to understanding persons, Shakespeare, Ludwig von Mises, C.S. Lewis, and Thomas Szasz are worth a whole slew of neuroscientists.

* * *

Election Day isn't far off—a fitting time for a FEE Timely Classic on "lesser evils" by Leonard Read.

The Federal Reserve is up to its usual monetary mischief. Richard Ebeling tells us how to correct it.

Alleged global warming doesn't only provide a subject for exciting movies; it has people scared about species extinction. Christopher Lingle tells you why you need not worry.

Why do protectionists have it easier than free traders? Arthur Foulkes has an answer, and it's no joke.

In making the case against immigration, some opponents have resorted to downright silly economic arguments. Gardner Goldsmith says they ought to know better.

California's fiscal woes can be summed up in three words: government-employee unions. Steven Greenhut has the gory details.

The United States held steady by one measure, but slipped seven places by another. George Leef reports on the latest international rankings on economic freedom.

The *New York Times* may think that the world is a hungrier place. But, Jim Peron writes, that's not what the numbers show.

Our columnists have done it again: Richard Ebeling compares democracy and freedom. Donald Boudreaux explores what it means to "live by the rules." Stephen Davies takes us back to when pollution filled the streets. Russell Roberts defends an alleged traitor. And John Jennrich, seeing people falling for the claim that we're running out of oil, protests, "It Just Ain't So!"

Our book reviewers chew on volumes about trusting strangers, drugs, excellence, and the Federal Reserve.

—SHELDON RICHMAN



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

## We're Running Out of Oil?

# It Just Ain't So!

The rise in gasoline prices in the United States has become a political issue. Each side panders to its own constituency with the most extreme arguments and factoids, leaving precious little in the middle ground of common sense.

Take, for example, the March op-ed in the *Los Angeles Times* by Paul Roberts, "Say Bye-Bye to Cheap Oil." The article rides the wave of public anxiety over current high prices of gasoline. Roberts—like countless others, including two men running for president of the United States and their supporters—makes a lot of extreme comments, including:

- "the days of cheap crude [oil] are over";
- "the world's surplus [oil production] capacity is disappearing";
- "the U.S. isn't well prepared for a high-cost oil future"; and
- "eventually, all of us, from the man in the Oval Office on down, may be forced to concede that the days of cheap oil are over and that the U.S. does need an entirely new approach to energy."

A first logical response to this sky-is-falling view is: Remember $100 oil? That early 1980s prediction ($200 in today's terms) was a rallying cry for extreme reactions. Well, it never happened. Our market-based system, which some said just *had* to be changed to save our mercantile souls, absorbed the blow of rising prices and responded as freed markets always do.

Today's consumer response to rising gasoline prices (which, by the way, are not the only rising energy prices) is to consider fuel mileage when buying a car. That's all it takes: consideration. Makers of trucks and SUVs will likewise consider the issue, and improve electronics and aerodynamics (to name just two) when building their vehicles. And, yes, some consumers will still buy the big ones, as they have every right to do.

But other consumers will take a different tack. They'll buy smaller and look for gas mileage in the 30-plus miles-per-gallon range rather than just the 20s. They'll consider gasoline-electric hybrid cars, which—no surprise here—are being supplied by foreign manufacturers, such as Toyota and Honda. Competition for the small-car market is resulting in high-quality cars that handle well and are comfortable.

Are they the cars for everybody? Obviously not, but they are a consumer response to rising gasoline prices that puts the lie to Paul Roberts's view that "the U.S. isn't well prepared for a high-cost oil future." More evidence comes in a front-page *Washington Post* article (May 20) headlined "Fuel Sippers Gaining on Heavyweights."

Buying gas-misers today still won't do much to deflect Roberts's concern that fuel prices would reach $3 a gallon by Labor Day. Unfortunately, he draws little distinction between a short-term concern and long-term issues (both government and private). The two don't logically mix.

Actually it might be the government rather than the market—through the impact of election-year politics—that has the most immediate dampening effect on high energy prices this year, both through what the Bush administration might do to win votes and what other nations, such as Saudi Arabia, might do to keep Bush in office.

Regarding the longer term, it's easy to knock down the Paul Robertses of the world. They're like the energy analysts who revise their annual forecasts every week, so that by December 20 each year they can claim to be pretty accurate.

In the late-1970s, for example, James Schlesinger, then-energy secretary, predicted



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

that the United States was running out of natural gas. With President Carter and many in Congress still queasy over the natural gas-*delivery* (as opposed to basic supply) shortages of the 1976–77 winter, the administration managed to get congressional approval for the Powerplant and Industrial Fuel Use Act, which sharply restricted the use of natural gas, to the point of prohibiting its use as a fuel to generate electricity.

Years later, as gas supply proved to be abundant and delivery problems were ironed out, Schlesinger was asked how he could ever have reached such a decision. "I asked Exxon," he said. The oil giant may or may not have known any better, but at that time, oil-selling Exxon had a financial interest in downplaying natural gas. Schlesinger didn't mention that.

## Energy Naysayers

Roberts and Schlesinger are just two among the naysayers who since the 1900s have had the world running out of energy, specifically oil and natural gas. In the middle of the last century, it was the noted geologist King Hubbert who put the scare into people. The antidote is to listen to economic geologist William Fisher of the University of Texas at Austin, who properly adds a dollar figure to calculations about supply.

Roberts's Chicken Little comment that "surplus capacity is disappearing" reminds me that a few years ago the Gulf of Mexico was dubbed the Dead Sea as far as natural gas production was concerned. Today, along with the Rocky Mountains, it's where all the action is.

Roberts raises the flag of concern about China's burgeoning economy, saying that it will consume more energy that might be used elsewhere. He concludes: "[A]s everyone knows, when supply falls behind demand, prices head for the sky." Well, yes, and as everyone knows, when prices go up, supply follows even as demand declines to put things in balance again. Economists call it "regression to the mean": extremes are just that, and most times life will plod along in a normal, average way. Alas, normal doesn't grab headlines.

Finally, it is notable that a real pro in capturing the moments of public angst, Daniel Yergin of Cambridge Energy Research Associates, wrote a piece in the *New York Times* a few days after Roberts's commentary appeared. Yergin trumped Roberts's handwringing by "Imagining a $7-a-Gallon Future." But Yergin did a thorough job of reviewing the history of oil-price predictions and subsequent lower prices. He cited a whole litany of bleak forecasts, noting that the 1980s $100 prediction was followed by oil as low as $6. Yergin said that historically "dire predictions have been undone by two factors. One is the opening (or reopening) of territories to exploration by companies faced with a constant demand to replace declining reserves. The second is the tremendous impact of new technology."

Yergin noted that Persian Gulf oil reserves—1.2 trillion barrels—are almost double what they were thought to be in the 1970s. He acknowledged the expected increase in energy demand from China and India, but concluded that "it looks as if supplies will meet that demand. If there is an obstacle, it won't be the predicted peak in production, at least in the next few decades. Rather, it will be the politics and policies of oil-producing countries and swings in global economic growth. And the extent of these difficulties, whatever they turn out to be, will register in the ups and downs at the gasoline pump."

Uncertainty always begets price volatility. And in the case of global energy supply, uncertainty is as close as the next day's news headlines.

—JOHN JENNRICH
johnjennrich@erols.com
Senior Fellow
Institute for Energy Research



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004



# The Lesser of Two Evils

*by Leonard E. Read*

According to *The Columbia Encyclopedia*, "the existence of only two major parties, as in most English-speaking countries, presupposes general public agreement on constitutional questions and on the aims of government." The reason for two parties is that each might keep a check on the other in order that neither party exceeds its constitutional bounds. The competitive two-party system, so it was thought, would assure a continuum of moral as well as political rectitude. The competition would expose and thus rid the public offices of charlatans; only statesmen would hold down the jobs.

Certainly the two-party system aimed at, if it did not presuppose, honest candidates contending for office; that is, each office seeker fairly presenting his own beliefs, leaving to the voters the matter of choosing. In respectable two-party theory the candidate tries to persuade the voters that his views are the ones they should support. Clearly, the theory did not include the idea that vying candidates should be nothing but mere responses to voter opinion polls. That would be senseless. Were this the case, we could now feed all voter opinions into an electronic computer and, within a few seconds, have all legislation written for us!

*Leonard Read (1898–1983) was the founder and president of FEE beginning in 1946 until his death. September 26 marks the 106th anniversary of his birth. This article first appeared in* The Freeman, *February 1963.*

Regardless of how respectable the theory, its practice has come a cropper. Today, trimming is so much in vogue that often a voter cannot cast a ballot except for one of two trimmers. Heard over and over again is the apology, "Well, the only choice I had was to vote for the lesser of two evils." Implicit in this confession are a moral tragedy and a political fallacy which, in combination, must eventually lead to economic disaster.

## I. The Moral Tragedy

It is morally tragic whenever a citizen's only choice is between two wrongdoers—that is, between two trimmers.

A trimmer, according to the dictionary, is one who changes his opinions and policies to suit the occasion. In contemporary political life, he is any candidate whose position on issues depends solely on what he thinks will have most voter appeal. He ignores the dictates of his higher conscience, trims his personal idea of what is morally right, tailors his stand to the popular fancy. Integrity, the accurate reflection in word and deed of that which is thought to be morally right, is sacrificed to expediency.

The above are severe charges, and I do not wish to be misunderstood. One of countless personal experiences will help clarify what is meant: A candidate for Congress sat across the desk listening to my views about limited government. At the conclusion of an hour's discussion he remarked, "I am in thorough



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

accord with your views; you are absolutely right. But I couldn't get elected on any such platform, so I shall represent myself as holding views other than these." He might as well have added, "I propose, in my campaign, to bear false witness."

No doubt the candidate thought, on balance, that he was justified, that righteousness would be better served were he elected regardless of how untruthfully he represented his position—than were he to stand for his version of the truth and go down to defeat.

This candidate is "a mixed-up kid." His values are topsy-turvy, as the saying goes. In an egotism that has no parallel, he puts his election to office above honesty. Why, asks the responsible voter, should I endorse dishonesty by voting for such a candidate? He has, on his own say-so, forsworn virtue by insisting on bearing false witness. Does he think his ambition for office is right because he needs a job? Then let him seek employment where want of principle is less harmful to others. Or, is his notion of rightness based on how much the rest of us would benefit by having him as our representative? What? A person without moral scruple representing us in Congress! The role of the legislator is to secure our rights to life, liberty, and property—that is, to protect us against fraud, violence, predation, and misrepresentation (false witness). Would our candidate have us believe that "it takes a crook to catch a crook"?

Such righteousness or virtue as exists in the mind of a man does not and cannot manifest itself in the absence of integrity—the honest, accurate reflection in deeds of one's real beliefs. Without this virtue the other virtues must lie dormant and unused. What else remains? It is doubtful if anything contributes more to the diseased condition of society than the diminishing practice of integrity.

Those who attach this much importance to integrity must perforce construe trimming as evil. Therefore, when both candidates for public office are judged to be trimmers, the one who trims less than the other is often regarded as "the lesser of two evils." But, is he really? It must be conceded that there are gradations of wrongdoing: killing is worse than stealing, and perhaps stealing is worse than covetousness. At least, if wrongdoing is not comparative, then it is self-evident that the best of us are just as evil as the worst of us; for man is fallible, all men!

## Principles Will Not Bend

While categories of wrongdoing are comparative, it does not follow that wrong deeds within any given category of evil are comparative. For instance, it is murder whether one man is slain, or two. It is stealing whether the amount is ten cents or a thousand dollars. And, a lie is a lie whether told to one person or to a million. "Thou shalt not kill"; "Thou shalt not steal"; "Thou shalt not bear false witness" are derived from principles. Principles do not permit of compromise; they are either adhered to or surrendered.

Is trimming comparative? Can one trimmer be less at fault than another trimmer? Does the *quantity* of trimming have anything whatsoever to do with the matter? Or, rather, is this not a question of *quality* or character? To trim is to ignore the dictates of higher conscience; it is to take flight from integrity. Is not the candidate who will trim once for one vote likely to trim twice for more votes? Does he not demonstrate by any single act of trimming, regardless of how minor, that he stands ready to abandon the dictates of conscience for the place he seeks in the political sun? Does not the extent or quantity of trimming merely reflect a judgment as to how much trimming is expedient?

If the only relevant question at issue is whether or not a candidate will trim at all, then trimming is not comparative and, thus, it would be incorrect to report, "I cast my ballot for the lesser of two evils." Accuracy would require, "I felt there was no choice except to cast a ballot for one of two men, both of whom have sacrificed integrity for the hope of votes."

## Irresponsible Citizenship

We must not, however, heap all our condemnation on candidates who trim. There



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

would be no such candidates were it not for voters who trim. Actually, when we find only trimmers to vote for, most of us are getting what we deserve. The trimmers who succeed in offering themselves as candidates are, by and large, mere reflections of irresponsible citizenship—that is, of neglected thinking, study, education, vigilance. Candidates who trim and voters who trim are each cause and each effect; they feed on each other.

To repeat, when one must choose between men who forsake integrity, the situation is tragic, and there is little relief at the polling level except as candidates of integrity may be encouraged by voters of integrity. Impractical idealism? Of course not! Read Edmund Burke, one of the great statesmen of all time, addressing his constituency:

> But his [the candidate's] unbiased opinion, his mature judgment, his enlightened conscience, he ought not to sacrifice to you, to any man, or to any set of men living. These he does not derive from your pleasure; no, nor from the law and the constitution. They are a trust from Providence, for the abuse of which he is deeply answerable. Your representative owes you, not his industry only, but his judgment; and he betrays, instead of serving you, if he sacrifices it to your opinion.

## II. The Political Fallacy

Is it fallacious to believe that responsible citizenship requires casting a ballot for one or the other of two candidates, *regardless of how far the candidates have departed from moral rectitude*?

Before trying to arrive at an answer, let us reflect on the reason why the so-called duty of casting a ballot, regardless of circumstance, is so rarely questioned. Quite obviously, the duty to vote is one of those sanctified institutions, such as motherhood, which is beyond criticism. The obligation to vote at any and all elections, whatever the issues or personalities, is equated with responsible citizenship. Voting is deeply embedded in the democratic mores as a duty, and one does not affront the mores without the risk of scorn. To do so is to "raise the dead"; it is to resurrect questions that have been settled once and for all; it is to throw doubt on custom, tradition, orthodoxy, the folkways!

Yet any person who is conscious of our rapid drift toward the omnipotent state can hardly escape the suspicion that there may be a fault in our habitual way of looking at things. If the suspicion be correct, then it would be fatal never to examine custom. So, let us bring the sanctity of voting in to the open and take a hard look at it, not in the spirit of advocating something but of exploring it.

### Hitler vs. Stalin

Now for the hard look: Where is the American who will argue that responsible citizenship requires casting a ballot if a Hitler and a Stalin were the opposing candidates? "Ah," some will complain, "you carry the example to an absurdity." Very well, let us move closer to home and our own experience.

Government in the U.S.A. has been pushed far beyond its proper sphere. The Marxian tenet, "from each according to ability, to each according to need," backed by the armed force of the state, has become established polity. This is partly rationalized by something called "the new economics." Within this kind of political framework, it is to be expected that one candidate will stand for the coercive expropriation of the earned income of all citizens, giving the funds thus gathered to those in groups A, B, and C. Nor need we be surprised that his opponent differs from him only in advocating that the loot be given to those in groups X, Y, and Z. Does responsible citizenship require casting a ballot for either of these political plunderers? The citizen has no significant moral choice but only an immoral choice in the event he has joined the unholy alliance himself and thinks that one of the candidates will deliver some of the largess to him or to a group he favors. In the latter case, the problem is not one of responsible citizenship but of irresponsible looting.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

## Registering a Protest

Does responsible citizenship require voting for irresponsible candidates? To ballot in favor of irresponsible candidates as though it were one's duty is to misconstrue the meaning of duty. To cast a ballot for a trimmer, because no man of integrity is offering himself, does as much as one can with a ballot to encourage other trimmers to run for office. Can anyone conceive of any element of protest in such balloting? To vote for a trimmer goes further: it would seem to urge, as strongly as one can at the polls, that men of integrity not offer themselves as candidates.

What would happen if we adopted as a criterion: *Never vote for a trimmer!* Conceding a generous liberality on the part of the electorate, millions of us would not cast ballots. Would the end result of this substantial, nonviolent protest, this large-scale demonstration of "voting by turning our backs," worsen our situation? It is difficult to imagine how it could. For a while we would continue to get what we now have: a high percentage of trimmers and plunderers in public office, men who promise privileges in exchange for ballots—and freedom. In time, however, with this silent but eloquent refusal to participate, the situation might, conceivably, improve. Men of integrity and high moral quality—statesmen—might show forth and, if so, we could add their numbers to the few now in office.

Would a return to integrity by itself solve our problem? No, for many men of integrity do not understand freedom; or, if they do, are not devoted to it. But it is only among men of integrity that any solution can *begin* to take shape. Such men, at least, will do the right as they see the right; they tend to be teachable. Trimmers and plunderers, on the other hand, are the enemies of morality and freedom by definition; their motivations are below the level of principles; they cannot see beyond the emoluments of office.[1]

Here is a thought to weigh: If respect for a candidate's integrity were widely adopted as a criterion for casting a ballot, millions of us, as matters now stand, would not cast ballots. Yet, in a very practical sense, would not those of us who protest in this manner be voting? Certainly, we would be *counted* among that growing number who, by our conscious and deliberate inaction, proclaim that we have no party. What other choice have we at the polling level? Would not this encourage men of statesmanlike qualities to offer themselves in candidacy?

## A Sacred Institution

Why is so much emphasis placed upon voting as a responsibility of citizenship?[2] Why the sanctity attached to voting? Foremost, no doubt, is a carry-over from an all-but-lost ideal in which voting is associated with making choices between honest beliefs, between candidates of integrity. We tend to stick with the form without regard to what has happened to the substance. Further, it may derive in part from the general tendency to play the role of Robin Hood, coupled with a reluctance to acknowledge this practice for what it is. Americans, at least, have some abhorrence of forcibly taking from the few and giving to the many without any sanction whatsoever. That would be raw dictatorship. But few people with this propensity feel any pangs of conscience if it can be demonstrated that "the people voted for it." Thus, those who achieve political power are prone to seek popular sanction for what they do. And, as government increases its plundering activities, more and more citizens "want in" on the popular say-so. Thus it is that pressures increase for the extension of the franchise. Time was when only property holders could vote or, perhaps, even cared to vote. In 1870 the franchise was extended to Negroes and in 1920 to women. Now the drive is on to lower the age from 21 to 18, and this has already been achieved in some places.

Frédéric Bastiat gave us some good thoughts on this subject:

"If law were restricted to protecting all persons, all liberties, and all properties; if law were nothing more than the organized combination of the individual's right to self-defense; if law were the obstacle, the check, the punisher of all oppression and plunder—



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

is it likely that we citizens would then argue much about the extent of the franchise?

"Under these circumstances, is it likely that the extent of the right to vote would endanger that supreme good, the public peace? Is it likely that the excluded classes would refuse to peaceably await the coming of their right to vote? Is it likely that those who had the right to vote would jealously defend their privilege?

"If the law were confined to its proper functions, everyone's interest in the law would be the same. Is it not clear that, under these circumstances, those who voted could not inconvenience those who did not vote?"[3]

## An Alternative

We can, it seems to me, glean from the foregoing that there is no moral or political or social obligation to vote merely because we are confronted with ballots having names and/or issues printed thereon. Has this so-called obligation of a citizen to vote, regardless of the ballot presentations, any more to support it than political madness on the rampage? And, further, does this not deny to the citizen the only alternative left to him—not to endorse persons or measures he regards as repugnant? When presented with two trimmers, how else, *at this level*, is he to protest? Abstinence from ballot-casting would appear to be his only way to avoid being untrue to himself.

If we seek more evidence than we now have as to the sacrosanctity of ballot-casting as a citizenship duty, we need only observe the crusading spirit of get-out-the-vote campaigns. One is made to feel like a slacker if he does not respond.

To rob this get-out-the-vote myth of its glamour, no more is required than to compare ballot-casting as a means of selecting representatives with a method *devoid of all voter judgment*: selection by lot. Politically unthinkable as it is, reflect, just for example, on your own congressional district. Disqualify all under 21, all of the insane, all illiterates, all convicts.[4] Write the names of the balance on separate cards to put into a mixing machine, and let some blindfolded person withdraw one card. Presto! Here is your next representative in Congress, *for one term only*. After all, how can a person qualify to vote if he is not qualified to hold the office himself? And, further, it is assumed, he will feel duty-bound to serve, as when called for jury duty.

## Wanted: An "Ordinary Citizen"

The first reaction to such a procedure is one of horror: "Why, we might get only an ordinary citizen." Very well. Compare such a prospect with one of two wrongdoers which all too frequently is our only choice under the two-party, ballot-casting system. Further, I submit that there is no governmental official, today, who can qualify as anything better than an "ordinary citizen." How can he possibly claim any superiority over those upon whose votes his election depends? And, it is of the utmost importance that we never ascribe anything more to any of them. Not one among the millions in officialdom is in any degree omniscient, all-seeing, or competent in the slightest to rule over the creative aspects of any other citizen. The recognition that a citizen chosen by lot could be no more than an ordinary citizen would be all to the good. This would automatically strip officialdom of that aura of almightiness which so commonly attends it; government would be unseated from its master's role and restored to its servant's role, a highly desirable shift in emphasis.

Reflect on some of the other probable consequences:

a. With nearly everyone conscious that only "ordinary citizens" were occupying political positions, the question of who should rule would lose its significance. Immediately, we would become acutely aware of the far more important question: What should be the extent of the rule? That we would press for a severe limitation of the state seems almost self-evident.

b. No more talk of a "third party" as a panacea. Political parties, which have become all but meaningless as we know them, would cease to exist.

c. No more campaign speeches with their



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

promises of how much better we would fare were the candidates to spend our income for us.

d. An end to campaign fundraising.

e. No more self-chosen "saviors" catering to base desires in order to win elections.

f. An end to that type of voting in Congress which has an eye more to re-election than to what's right.

g. The mere prospect of having to go to Congress during a lifetime, even though there would be but one chance in some 10,000, would completely reorient citizens' attention to the principles which bear on government's relationship to society. Everyone would have an incentive to "bone up," as the saying goes, if for no other reason than not to make a fool of himself, just in case! There would be an enormous increase in self-directed education in an area on which the future of society depends. In other words, the strong tendency would be to bring out the best, not the worst, in every citizen.

It would, of course, be absurd to work out the details, to refine, to suggest the scope of a selection-by-lot design, for it hardly falls within the realm of either probability or possibility—at least, not for a long, long time. Further, only folly would be heaped on absurdity were one to advocate any meddling with the present machinery.

## Reform Follows Understanding

Why, if one believes mass voting to be inferior to selection by lot, should one not urge immediate reform? Let me slightly rephrase an explanation by Gustave Le Bon:

> The reason is that it is not within our power to force sudden transformations in complex social organisms. Nature has recourse, at times, to radical measures, but never after our fashion, which explains how it is that nothing is more fatal to a people than the mania for great reforms, however excellent these reforms may appear theoretically. They would only be useful were it possible suddenly to change a whole nation of people. Men are ruled by ideas, sentiments, customs—these are of men's essence. Institutions (social organisms) and laws are but the outward manifestation or outcome of the underlying ideas, sentiments, customs, in short, character. To urge a different outcome would in no way alter men's character—or the outcome.[5]

Why, then, should selection by lot be so much as mentioned? Merely to let the mind dwell on this intriguing alternative to current political inanities gives all the ammunition one needs to refrain from casting a ballot for one of two candidates, neither of whom is guided by integrity. Unless we can divorce ourselves from this unprincipled myth, we are condemned to a political competition that has only one end: the omnipotent state. This would conclude all economic freedom and with it, freedom of speech, freedom of the press, freedom of worship. And even freedom to vote will be quite worthless—as it is under any dictatorship.

Responsible citizenship demands, first of all, a personal attention to and a constant re-examination of one's own ideas, sentiments, customs. Such scrutiny may reveal that voting for candidates who bear false witness is not required of the good citizen. At the very least, the idea merits thoughtful exploration. ❑

1. If it be conceded that the role of government is to secure "certain unalienable rights, that among them are the right to life, liberty, and the pursuit of happiness," by what stretch of the imagination can this be achieved when we vote for those who are openly committed to unsecuring these rights?

2. Responsibilities of citizenship involve a host of personal attributes, first and foremost a duty to one's Maker, duty to self, to family, to neighbors, and so on. Is it not evident, therefore, that voting is a mere formality after the fact? *It's much too late to be a responsible citizen if the responsibility hasn't been exercised before election day.* Everybody voted for Khrushchev in the last Russian election! Clearly, that was no evidence of responsible citizenship.

3. See *The Law* by Frédéric Bastiat, pp. 16–17. Obtainable from the Foundation for Economic Education.

4. One might like to disqualify everybody who receives governmental aid but, then, who would remain? The very bread we eat is subsidized. Those who ride on planes or use the mails, and so on, would be disqualified.

5. See *The Crowd* by Gustave Le Bon (New York: The Viking Press, 1960), p. 4.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Interest Rates and the Federal Reserve

*By Richard M. Ebeling*

On June 30, 2004, the Federal Reserve Open Market Committee announced it was raising the targeted federal funds interest rate from 1 to 1.25 percent, to begin to prevent a possible future price inflation. Then on August 10, the Fed announced it was raising the federal funds target rate once again by a quarter point, from 1.25 to 1.5 percent.

Nearly all the commentaries that either preceded or followed the Fed's announcements focused on what impact these decisions will have on investment and consumer spending, and whether they will fuel higher price inflation in the future.

What was ignored is the more fundamental question of whether the Fed should be attempting to set or influence interest rates in the market. The presumption is that it is both legitimate and desirable for central banks to manipulate a market price, in this case the price of borrowing and lending. The only disagreements among the analysts and commentators are over whether the central banks should nudge interest rates up or down and by how much.

In the free market, interest rates perform the same functions as any other price: to provide information, to serve as an incentive, and to bring supply and demand into balance. Market prices convey information about what goods consumers want and what it would cost for producers to bring those goods to the market. Market prices serve as an incentive for producers to supply more of a good when the price goes up and to supply less when the price goes down; similarly, a lower or higher price influences consumers to buy more or less of a good. And finally, the movement of a market price, by stimulating more or less demand and supply, tends to bring the two sides of the market into balance.

Market rates of interest balance the actions and decisions of borrowers (investors) and lenders (savers) just as the prices of shoes, hats, or bananas balance the activities of the suppliers and demanders of *those* goods. This assures, on the one hand, that resources which are not being used to produce consumer goods are available for future-oriented investment, and, on the other, that investment doesn't outrun the resources available to support it.

Interest rates higher than those that would balance saving with investment stimulate more saving than investors are willing to borrow, and interest rates below that balancing point stimulate more borrowing than savers are willing to supply.

There is one crucial difference, however, between the price of any other good that is pushed below that balancing point and interest rates being set below that point. If the price of hats, for example, is below the balancing point, the result is a shortage; that is, fewer hats are offered by suppliers than the number consumers are willing to buy at that price. Some consumers, therefore, will have

*Richard Ebeling (rebeling@fee.org) is the president of FEE.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to leave the market disappointed, without a hat in hand.

## Out of Thin Air

In contrast, in the market for borrowing and lending the Federal Reserve pushes interest rates below the point at which the market would have set them by increasing the supply of money on the loan market. Even though savers are not willing to supply more of their income for investors to borrow, the central bank provides the required funds by *creating them out of thin air* and making them available to banks for loans to investors. Investment spending now exceeds the amount of savings available to support the projects undertaken.

Investors who borrow the newly created money spend it to hire or purchase more resources, and their extra spending starts putting upward pressure on prices. At the same time, more resources and workers are attracted to these new investment projects and away from other market activities.

The twin result of the Federal Reserve's increase in the money supply, which pushes interest rates below that market-balancing point, is an emerging price inflation and an initial investment boom, both of which are unsustainable in the long run. Price inflation is unsustainable because it undermines trust in and the value of money. The boom is unsustainable because the imbalance between savings and investment will eventually necessitate a market correction when it is discovered that the resources available are not enough to produce all the consumer goods people want to buy and all the investment projects borrowers have begun.

Thus the expansionary monetary policy that the Fed has been following for the last three and a half years, and which has kept interest rates artificially low, is finally starting to bring about the price inflation that the Fed now says it must prevent. How expansionary has Fed monetary policy actually been? A frequently used measurement of the money supply in Federal Reserve publications is known as M2, composed of currency, travelers' checks, demand deposits, savings deposits, small-denomination time deposits, and balances with retail money-market funds.

If we use this as an indicator of Fed monetary policy, we discover the following: From 2000 to the middle of 2004, M2 increased by more than 30.5 percent. In 2001, M2 rose by almost 9 percent; in 2002, by over 7.5 percent; and in 2003, by almost 7 percent. The Federal Reserve's semiannual report to the Congress, released in the middle of July, reported that for the first half of 2004, M2 increased at a 6.5 percent annual rate. But for some months in the first half of 2004, the monthly increases in M2 were at annualized rates near or over 9 percent. In May alone, M2 increased at a 13 percent annual rate. It should not be surprising that interest rates have been pushed down to levels not seen since the 1950s.

In other words, the Fed says it must combat the very problem its own monetary policies have created, while all the time publicly warning about the inflationary effects they have caused. And all the while the Fed worries about dampening the investment boom and consumer spending its own artificially low interest-rate policies have brought about.

Rather than continuing to manipulate interest rates, the Federal Reserve should simply stop creating money. That would bring an end to any danger of price inflation, since there would no longer be any monetary expansion putting upward pressure on prices in general in the American economy. And by ending any further monetary expansion, interest rates would be free to tell the truth: how much savings is actually available for investment purposes, and therefore how many and what types of investment projects can be undertaken without a future artificial investment bubble having to burst.

It is really that simple. Unfortunately, the Federal Reserve is not willing to give up its monetary mischief. And commentators in the media seem to be obsessively focused on looking at the interest-rate symptoms rather than at the monetary disease. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Playing by the Rules

During the 1992 presidential campaign, candidate Bill Clinton lyrically and repeatedly praised Americans "who play by the rules." He did so to indicate that under a Clinton presidency, unlike under the Reagan-Bush regime, such people would not be cheated and harmed by people who break the rules.

I was unaware then (as I remain now) of any significant wave of rule-breaking that swept through the U.S. economy during the 1980s and early 1990s. Still, Clinton's stump speeches obviously resonated with voters, I believe in part because he persuaded many whose lives were not ideal that the reason for their less-than-stellar fortune was that they, with moral steadfastness, "played by the rules" while other, less-ethical people did not.

Needless to say, rules are necessary, and breaking agreed-upon rules is wrong. Everyone, even young children, understands this. But those truths don't justify invoking mythical rules in order to achieve improper economic policies, as we have seen lately.

The recent debate over so-called "outsourcing" has reinvigorated the "people who play by the rules" lyric in the speeches of politicians and in the scripts of pundits. High-tech commentator Esther Dyson's remarks are a good example: "U.S. workers who are losing their jobs played by the rules they were given: get a good education, work hard, and you'll have a good job. Now that implicit promise has been broken." Similarly, Harris Miller, president of the Information Technology Association of America, told Congress in October that IT professionals had "played by the rules . . . only to find themselves now unemployed or underemployed."

Proving that you played by the rules does indeed create a powerful case for receiving protection from rule-breakers. But merely asserting that rules have been broken won't do. One of the principles of civil society is that reasoned discourse and evidence count far more than assertions and emotional outbursts. Is the fact that workers lose jobs as a consequence of trade with foreigners evidence that rules have been broken? Not at all.

Put bluntly, there is no rule in a free society that says, "If you are hard-working, honest, well-educated and highly skilled, you will never lose your job." That cannot *possibly* be a rule—and yet such an imaginary "rule" is presumed when it is suggested that something is amiss whenever people lose their jobs as a result of international trade.

Here's something that *is* true: The harder you work, the more education and skills you acquire, and the more integrity you have, the more attractive you are to potential employers. And here's another genuine rule of a free society: Employers are free to hire you, and you to work for them, on almost any terms you both find agreeable.

*Donald Boudreaux (dboudrea@gmu.edu) is chairman of the economics department at George Mason University and former president of FEE.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Your employer *may*, if he wishes, agree never to fire you. That would be an agreement between you and your employer, not between you and "society" or you and the government. If your employer makes such an agreement with you and nevertheless fires you, *then* you've played by the rules and have been victimized by someone who broke them. You have a legitimate complaint. But if this same employer is put out of business by the competition (be it domestic or foreign) and you lose your job as a result, no rule has been broken. (The law of contract and the principles of ethics do not mandate that people do the impossible. It would be impossible for your defunct employer to continue employing you, and ludicrous for you to expect that he could.)

One response, alluded to in the quotation from Esther Dyson, might be: "But there's an implicit contract between the government and people who play by the rules. The government should protect such people from job loss."

Government is such a heavy-handed, awkward, and legalistic creature that we must be especially wary of claims that it is bound by implicit agreements. Easy acceptance of such claims will attract numberless unverifiable demands for government to redress all manner of hardships and inconveniences.

## Overbearing Government

But apart from the problems with the notion of implicit claims on government action is the more fundamental fact that few people would want to live in an America whose government implicitly agrees to protect the jobs of everyone "who plays by the rules."

To see why, recognize that nothing unique distinguishes jobs lost to foreign competitors from jobs lost to more-efficient domestic rivals, to improvements in technology, or to simple changes in consumer tastes. Sustained popularity of the Atkins diet, for example, will cause job losses for many workers in firms that make pasta, doughnuts, chocolate, beer, and other high-carb goodies. Many of these people who lose their jobs will have "played by the rules."

Should government prevent these job losses? If so, how? The most direct way is to legislate against economic change—enforce statutes that prevent consumers from altering their spending patterns. Ignore the tyranny necessarily unleashed by such a policy and understand that such a policy cannot work. Trying to freeze economic activity—to preserve the current complex pattern of consumption and production as if in suspended animation—would be like trying to suddenly stop a jetliner in flight and forever suspend it where it's stopped. The result would be a spectacular crash.

A market economy gets its momentum from consumers seeking and seizing better deals, and from entrepreneurs struggling to make better deals available. Some better deals are small (for example, shaving a few cents off the price of bags of frozen broccoli); others are large (for example, the personal computer replacing the typewriter). Without the urge or the incentive or the ability to seek, seize, and struggle for better deals and higher profits, the economy wouldn't just stop, petrify, fossilize. It would crash.

Of course, in an economy as large as ours, government can shelter any handful of people from the forces of change without the effects being noticed amid the many adjustments and imperfections forever bubbling within the economy. Such sheltering is what tariffs do. They protect a handful of politically potent firms and workers from the need to deal responsibly with consumers' decisions to spend their money differently.

So note: the *real* rule-breakers are those who willingly enjoy the fruits of a market economy but who also seek protection from the changes and dynamism inherent in it.

Precisely because I want everyone who plays by the rules to be assured that everyone else is playing by the rules, I oppose tariffs, subsidies, and any other government policy that breaks the rules of a market economy. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Higher $CO_2$, More Global Warming, and Less Extinction?

*by Christopher Lingle*

It is widely believed that humans exert a harmful impact on the natural environment, especially when it comes to releasing greenhouse gases into the atmosphere. And so there is some alarm that the amount of carbon dioxide ($CO_2$) in the atmosphere has risen by 25–30 percent in the last 200 years.

One viewpoint has become known as the "$CO_2$-induced global warming extinction hypothesis," which projects greater extinction of species. The combination of global warming and an increase in atmospheric $CO_2$ will supposedly cause plants and animals that cannot escape the stress from rising temperatures to become extinct.

In January a study published in the journal *Nature* projected that 15–37 percent of species will become extinct by the middle of the century at current rates of global warming. The study came under immediate criticism. An earlier examination of this hypothesis was conducted by the Marshall Institute in partnership with the Center for the Study of Carbon Dioxide and Global Change.

The study, "The Specter of Species Extinction: Will Global Warming Decimate Earth's Biosphere?," concluded that claims of mass extinctions arising out of climate change are unsupported by facts.[1] The extinction hypothesis ignored the fact that $CO_2$ enrichment tends to offset the negative effects of rising temperatures on vegetation.

The findings contradict claims that man-made climate change can cause significant increases in the rate of species extinction. First, they point out that there is a lack of definitive knowledge on how many species exist and what the rate of natural extinction might be. Further, it is not known how many species are becoming extinct because of other human or nonhuman causes.

If we accept the worst-case scenario that the earth is getting warmer and $CO_2$ concentrations are increasing, most species would respond by adapting, acclimatizing, or migrating. In the case of plant life, increasing the amount of $CO_2$ will induce changes that make them better adapted to warmer conditions. Indeed, more $CO_2$ allows them to grow better at almost all temperatures, especially at higher temperatures. And so, elevated $CO_2$ content improves the ability of plants to resist heat stress and also raises the optimum temperature for growth.

In other words, a rise in atmospheric temperature combined with a higher $CO_2$ concentration makes it easier for plants to

*Christopher Lingle (CLingle@ufm.edu.gt) is a professor of economics at Universidad Francisco Marroquin in Guatemala and adjunct scholar at the Centre for Civil Society in New Delhi.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

adapt. Since the range of adaptation of most plants will likely expand if the planet warms, extinctions will become less likely than they are at present.

Additional evidence of this was reported in *Science*.[2] According to climatic and satellite data gathered since 1982, global plant productivity has increased by 6 percent with the largest gains in tropical ecosystems. Part of the rise in plant growth was due to diminished cloud cover, leading to a rise in solar radiation in the tropics.

Since rising plant productivity sucks in carbon dioxide from the atmosphere, "carbon sinks," such as large forested areas, can offset the production of rising carbon gases. This means that increased concentrations of $CO_2$ are more likely to cause temperatures to go down rather than go up.

Animals can be expected to react similarly to simultaneous increases in atmospheric temperature and $CO_2$ concentration by migrating toward the poles or higher altitudes. By increasing the boundaries of their ranges, most species will increase the probability of survival.

If we succeed in curtailing manmade $CO_2$ emissions, our actions might actually impose a greater challenge to life forms in the biosphere. This is because a sudden stop in the increase of $CO_2$ content in the air would block the physiological transformation of plants that provides them with protection against heat stress.

## Do Human Beings Cause Climate Change?

But it looks unlikely that curbing the impacts of human activity on global warming will alter the general pattern being claimed. A study covering the period from 1856 to 2002 looked at the relationship of solar-flare activity to statistical fluctuations in the earth's near-surface air temperature.[3] It revealed a stronger physical connection between climate and solar activity than was previously thought by most scientists. These results imply that variations in global temperatures are beyond human control because they are mostly determined by the sun.

Even the threat of climbing temperatures alone need not be a cause for alarm. While a consensus points to an increase in temperature of about half a degree centigrade over the last 100 years, this is no surprise since global temperature averages always change. History is replete with periods of global cooling and global warming; periods of rising temperature give way to periods of falling temperatures.

Richard Lindzen, an atmospheric scientist at MIT and a contributor to the report issued by the UN Intergovernmental Panel on Climate Change (IPCC), points out that most climate models do not take into account how clouds behave. Such neglect exaggerates estimates of warming since climate sensitivity becomes impossible to predict. This is because the response measured by the models depends primarily on water vapor and clouds.

Research Lindzen performed with NASA scientists revealed that clouds over the tropics act like a thermostat and will limit warming.[4] In warm regions clouds react to rising temperatures by contracting to release heat, and to falling temperatures by expanding and trapping it. They expect that warming will be not much more than one degree centigrade, but probably less, by 2100.

Most of the information above contradicts the conventional wisdom that blankets the mainstream media. Citizens with limited technical knowledge about the environment should find reassurance in divergent scientific viewpoints. □

1. www.co2science.org/reports/extinction/mr1toc.htm.

2. Ramakrishna R. Nemani, et al., "Climate-Driven Increases in Global Terrestrial Net Primary Production from 1982 to 1999," *Science*, June 6, 2003, pp. 1560–63.

3. Nicola Scafetta and Bruce J. West, "Solar Flare Intermittency in the Earth Temperature Anomalies," *Physical Review Letters*, June 17, 2003, p. 248701.

4. Richard S. Lindzen, Ming-Dah Chou, and Arthur Y. Hou, "Does the Earth Have an Adaptive Infrared Iris?" *Bulletin of the American Meteorological Society*, vol. 82, no. 3, 2001, pp. 417–32.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Free Trade's Never-Ending Battle

*by Arthur E. Foulkes*

Bastiat, did you live in vain?

I can think of few people who did more for the cause of free trade in his lifetime than Frédéric Bastiat. A nineteenth-century French lawmaker, pamphleteer, economist, and philosopher, Bastiat is well known to free-trade advocates even today. His classic satirical essay "A Petition," which calls for protection of candle makers from unfair competition from the sun, is a staple in the library of all anti-protectionists.

Yet I sometimes have to wonder if the cause of free trade isn't hopeless. Each day someone new calls for an end to the "exporting of jobs," "dumping," or "foreign dependence"—all catch phrases for protection. And the public largely applauds.

"It's bad for workers," said a young woman on National Public Radio's "Morning Edition," speaking about freer trade with Latin America. "It puts profits ahead of people," she said. That radio piece included quotes from four people opposed to free trade and just one quote from a supporter, but even he was careful to couch his words in neomercantilist clothing. Free trade will boost U.S. exports, he stressed, avoiding any mention of dreaded imports. As Orwell might have penned it: "Exports good, imports bad."

Why are things this way? Bastiat wrote that the enemies of free trade "have a marked advantage over [free traders]. They need only a few words to set forth a half-truth; whereas, in order to show that it is a half-truth, [free traders] have to resort to long and arid dissertations."[1] A bumper sticker can make the protectionist argument ("Hungry? Eat your Japanese Car!"), while free traders, in Bastiat's words, are forced to make—God help us!—"An appeal to reason."[2]

My stepson is a clever if sinister boy. When he was 14 or 15 he informed me he had devised a plan to "ruin the economy." He would build a machine that would produce whatever anyone desired instantly. Want a new car? Presto, here's a Jaguar in your favorite color. Want a steak dinner? Presto, here's a fillet mignon with baked potato and steamed vegetables. By instantly meeting all human needs, the machine would simultaneously bankrupt all businesses creating global unemployment.

After wondering for an uneasy moment why my stepson would be spending his time dreaming of ways to spread planetary ruin, I came to my senses and said, "That sounds great! Good luck with the machine!"

This may not have been the reaction he was expecting, but, as I went on to explain, if his machine really could instantly create whatever anyone wanted, we certainly would not need jobs, businesses, or any of the other things people usually think of when they talk about "the economy." In

*Arthur Foulkes (arthurfoulkes@hotmail.com) is a freelance writer living in Indiana.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

that sense, his machine really would "ruin" the economy, since there would be no need for any further economizing. Scarcity itself would be a thing of the past. However, his machine would not spread the global despair I suspect he had in mind. Like many people, he was equating economic well-being with jobs, business activity, trade, and so on, perhaps not realizing these things are not ends, but only means to the ultimate goal of all economic activity: *consumption.*

The famous French economist Jean-Baptiste Say emphasized that we have to produce in order to consume. We can either consume what we have produced or—more likely—trade what we have produced to others. Our demand for goods and services forces us to produce marketable commodities. The demand of producers creates supply (not the other way around, as John Maynard Keynes misrepresented Say's Law). Say's Law may help explain why my stepson and others equate economic welfare with employment and production. We serve others to serve ourselves, and the way we serve others is called our "employment." Thus jobs are seen as synonymous with well-being. And jobs are what most protectionist measures are designed to preserve. But this is not the whole story.

## Consumption Reduced

Trade restrictions prevent American consumers from buying foreign-made goods at prices lower than American businesses and workers can supply them. Their effect is to reduce consumption for the sake of production. Although some people in the protected industries prosper, the wider population is always worse off than it would be absent the protectionist barriers.

In short, tariffs amount to a tax on everyone to pay for the privileges of a few chosen workers and industries. Certainly this tax is spread over a large number of people and is therefore difficult to see, buried deep inside the prices of goods and services. Yet it is there nonetheless. For instance, Americans waste $13 billion annually to preserve the domestic textile industry.[3] They also pay three times the market price for sugar and an extra $91 million annually for apple juice, all thanks to import barriers.[4] Tariffs on lumber raise the cost of new homes to the point that some 300,000 people are priced out of the housing market annually.[5] Such examples go on and on.

Two hundred years ago 97 percent of Americans lived on farms; today, because of technological and other innovations, only around 2 percent do. Did all those who lost farming jobs languish and die? Or did they find new ways of producing goods and services for their fellow men? More recently, did the millions formerly employed in now-extinct manufacturing plants simply perish and did their children find (or make) no other opportunities?

New professions and jobs that no one could have imagined two decades ago have replaced the old jobs because we've allowed less productive means of creating some consumer goods to die away or be performed overseas. Our standard of living has all the while increased, not, as protectionists always warn, decreased.

Freedom of trade, with its attendant specialization, productivity growth, and never-ending fluctuations in relative production costs, means the face of the world's economy is always changing. Indeed, change is the only constant when people are free to conduct their economic affairs. Any effort to eliminate change is the work of despots, never the result of voluntary exchanges in a free market. Bastiat was right; the protectionists have an easier job than we. But, as long as we continue the struggle, he will not have lived in vain. □

1. Frédéric Bastiat, *Economic Sophisms* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), p. 4.
2. Ibid.
3. Dan Ikenson, "Threadbare Excuses: The Textile Industry's Campaign to Preserve Import Restraints," Cato Institute Trade Policy Analysis No. 25, October 15, 2003; www.freetrade.org/pubs/pas/tpa-025es.html.
4. J. Christopher Robbins, "Apple Concentrate Tariff," Mises.org Daily Article, May 2, 2002, www.mises.org/fullstory.asp?printFriendly=Yes&control=946.
5. Daniel T. Griswold, "The Economic Effects of Significant U.S. Import Restraints," testimony before the U.S. International Trade Commission, December 4, 2001, www.freetrade.org/pubs/speeches/itct-dg120401.html.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Flight from Responsibility

Whenever I catch myself admiring a thinker, I find that he shares a trait with other thinkers I admire: an insistence on clear and honest language, a determination not to take metaphors literally.

Apropos of this, September marks the 106th anniversary of the birth of FEE's founding president, Leonard E. Read, a good time for me to recall a favorite essay of his, "On That Day Began Lies."*

Read got his title from a passage in Leo Tolstoy's *The Law of Love and the Law of Violence*, which opens the essay:

> From the day when the first members of councils placed exterior authority higher than interior, that is to say, recognized the decisions of men united in councils as more important and more sacred than reason and conscience; on that day began lies that caused the loss of millions of human beings and which continue their unhappy work to the present day.

Read found within that quote a clue worth following, a clue to what was wrong with a world wracked by war, power, insecurity, and oppression, all at the expense of freedom, creativity, and prosperity. For Read, lies—the denial of truth—must be implicated for the sorry state of affairs, for they could not be the result of a striving for "intellectual integrity."

He asked: "Is it possible that there is something of a wholly destructive nature which has its source in councilmanic, or in group, or in committee-type action? Can this sort of thing generate lies that actually cause the loss of 'millions of human beings'?" He believed so.

"In what manner, then, do 'the decisions of men united in councils' tend to initiate lies?" Read replied that even decent individuals, once joined in a group, can be tempted to shed their self-discipline and find immunity from responsibility in the myth that it is the *association*, not they individually and personally, that acts. The perils of literalizing that metaphor are obvious at once. Read explained:

> Persons advocate proposals in association that they would in no circumstance practice in individual action. Honest men, by any of the common standards of honesty, will, in a board or a committee, sponsor, for instance, legal thievery—that is, they will urge the use of the political means to exact the fruits of the labor of others for the purpose of benefiting themselves, their group, or their community.
>
> These leaders, for they have been elected or appointed to a board or a committee, do not think of themselves as having sponsored legal thievery. They think of the board, the committee, the council, or the association as having taken the action. The onus of the act, to their way

*Sheldon Richman (srichman@fee.org) is the editor of* The Freeman.

*It was excerpted in the May 1998 issue of *The Freeman* and is also online at www.fee.org/vnews.php?nid=4018.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of thinking, is put on an abstraction which is what a board or an association is without persons.

Strictly speaking, to say that an association decided such and such, is a lie. Further lies grow out of the nearly inevitable compromises made when the association strives to reach agreement. Read bolsters his point by describing a million-member organization whose governing body proclaims its stand on a matter. There's a small chance of unanimity, but the claim that the position represents the convictions of every member is "in all probability . . . an untruthful statement."

## Blind Faith in Majority Wisdom

He goes on to point out some other features of decision-making by committee. (He is primarily concerned with voluntary associations that take "stands" on political matters.) For instance, attributes only applicable to individuals are transferred to groups, attributes such as "conscience, reason, knowledge, integrity, fidelity, understanding, judgment, and other virtues." Along with this comes the belief that "wisdom can be derived by pooling the conclusions of a sufficient number of persons, even though no one of them has applied his faculties to the problems in question." Belief in the wisdom of the majority is held as a matter of "blind faith."

Read thought that the willingness to delegate moral responsibility to committees, a literal absurdity, is a perversion of the otherwise invaluable division of labor. It is not like delegating shoemaking. In keeping with his characteristic ethic, he would not say what *we* should think about this matter, but only what *he* thought and did about it: he would take "no part in any association whatever which takes actions implicating me for which I am not ready and willing to accept personal responsibility." For him, integrity demands nothing less.

Read's point is critical. When someone says, "The government ought to provide more student loans" or "I wish the administration would build more homeless shelters" or "When will Congress pass that subsidy to business?" we are hearing an escape from responsibility. The person who typically says such things would never consider personally employing violence to force his neighbors or even strangers to provide loans, build shelters, or subsidize businessmen. Yet he will earnestly and with a clear conscience join an association in order to have it urge an abstraction (government) to achieve hoped-for ends. You would never know from his statements that, first, abstractions can't act and, second, that concrete innocent taxpayers will have to be dispossessed of their money before those ends can be realized.

Euphemism of course plays a leading role in the flight from responsibility. Open a newspaper any day and you will find examples. The day I wrote this column a physician at the Memorial Sloan-Kettering Cancer Center, Robert E. Wittes, decried in a newspaper column the high price of new cancer drugs. The drug companies "are effectively daring the government to impose price controls," he wrote. "This the government must do if the drug industry fails to come to its senses quickly."

The term "price controls" is unusually blunt, but it is still a euphemism. People, not prices, would be controlled. The vogue phrase is "access to affordable prescription drugs." How are we to translate this? "Government" is a collection of individuals playing a variety of roles, all involving the legal use of violence. Medicines are provided by business people, scientists, and others. What is being said, then, is that some people ought to tell other people to whom they must sell their medicines and on what terms, and if the people in the second group refuse to comply, the people in the first should respond with violence.

People have become so habituated to metaphors and euphemisms that they no longer realize what they are saying. They have a strong interest in *not* knowing. In the appropriate context, it behooves the advocate of liberty to translate such statements into a more proper idiom, namely, the idiom of freedom and power. He shouldn't expect gratitude. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Twisting Economics Against Immigrants

*by P. Gardner Goldsmith*

On January 7 President Bush announced what appeared to be a sweeping plan to grant de-facto amnesty to millions of illegal aliens working in the United States. In fact, it was little more than a long-term worker-visa program that barely increased the ability of employers to hire whom they wished, and came nowhere near recognizing the right of individuals to move where their abilities take them.

Nonetheless, this has not stopped commentators ranging from conservative radio hosts Laura Ingraham and Michael Savage to writers such as Pat Buchanan and Mark Krikorian from heralding the end of America as we know it. Though it might be easy to flippantly dismiss such warnings, many of their arguments are substantive and important. Due to the paternalism of contemporary government, the proposal to accept the "illegals" is fraught with problems.

But apart from these practical, day-to-day considerations, and separate from the debate over whether immigrants are a net gain or loss to the coffers of the federal government, there is a larger, timeless issue that lies at the heart of the anti-immigrationist assertions. It is the sweeping claim that immigrants suppress American wages and take American jobs. The argument is used to pander to blue-collar workers and high-tech employees alike, and it is bandied about far too frequently by those who should know better.

Perhaps the most egregious example in this regard is Krikorian, who has a deft and stylish way of selectively presenting arguments made by free-trade advocates and using their words to bolster his own anti-free-trade position.

In his January 7 *National Review Online* article about the President's plan, Krikorian (a visiting fellow at the Nixon Center and director of the Center for Immigration Studies) paints a rosy picture of an America that restricts immigration. According to Krikorian, if the U.S. government were to enforce more stringently the nation's immigration policies, life for American workers would improve: "[E]mployers would respond to this new, tighter, labor market in two ways. One, they would offer higher wages, increased benefits, and improved working conditions, so as to recruit and retain people from the remaining pool of workers. At the same time, the same employers would look for ways to eliminate some of the jobs they now are having trouble filling."[1]

This hopeful passage brings some nagging questions to mind. Foremost among them is where employers will get the expendable capital to offer higher wages, increased benefits, and improved working conditions. Are they operating on such high profit margins that they can absorb the new costs that Krikorian would dictate?

*P. Gardner Goldsmith (elggrande@yahoo.com) is an independent journalist and screenwriter in New Hampshire.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

He seems unconcerned with this minor problem, and continues to tread along his utopian path. "The result would be a new equilibrium," Krikorian says, "with blue-collar workers making somewhat better money, but each one of those workers being more productive."

It is interesting that he should feel so free to tell employers and workers how their businesses will operate and that they will achieve a "new equilibrium" that he prefers over the one the employers and workers could establish without his help. Besides the fact that his assumption regarding wages is completely erroneous and reflects little understanding of profit, marginal costs, and the productive use of capital, he assumes employers can simply increase these wages without any consideration of the most important player in the free-market economy, *the consumer*.

Krikorian conveniently neglects to consider how consumers would respond to the forced higher costs of products. Perhaps this is because he believes the heady notion that costs just wouldn't go up. As he says: "[S]ince all unskilled labor—from Americans and foreigners, in all industries—accounts for such a small part of our economy, perhaps four percent of GDP, we can tighten the labor market without any fear of sparking meaningful inflation."

Such assurances usually don't sit well with people who understand why we work to decrease costs of production in the first place. This is a basic concept that nearly every consumer going to the market understands.

## Less, Not More

The purpose of a productive economy is to make things easier, not harder, to buy; to let us use less, not more, of our toil to get a product. To embrace Krikorian's naïve notion would be to accept the idea that the farmer should take a wheel off his plow, because, though the machine will move more slowly and he will have to work harder to get his produce, it will employ an American to carry the wheel-less side of the plow, or better yet, force the farmer to hire a team of experts to develop a new, floating plow that may cost him too much to stay in business, but will employ high-skilled natives.

This must be an attractive line of thinking to Krikorian, for in his attempts to supersede the preferences of consumers and businessmen as reflected in the market, he cites as inspiration one of the most legendary free-market thinkers, the late Julian Simon, and his work on scarcity.

In his breakthrough 1981 publication, *The Ultimate Resource*, Simon revealed that most of the leftist fears regarding depletion of natural resources were unfounded. Simon understood that the relative scarcity of resources leads to greater human innovation, which leads to greater productivity, greater market abundance of old and new resources, and improved living conditions.

As Krikorian notes, Simon spelled it out clearly when he said: "It is important to recognize that discoveries of improved methods and of substitute products are not just luck. They happen in response to 'scarcity'—an increase in cost. Even after a discovery is made, there is a good chance that it will not be put into operation until there is need for it due to rising cost. This point is important: Scarcity and technological advance are not two unrelated competitors in a race; rather, each influences the other."[2]

This is absolutely correct. Unrestrained human ingenuity lets us thrive in a world of limited resources. But Krikorian seeks to use this discovery to justify depletion of the U.S. labor force! Citing raisin-grape growers in the United States and Australia as comparative examples, he explains that in Australia, a nation with a small workforce, raisin producers were forced to develop new techniques to harvest their product. This innovation led to greater productivity—more raisins being harvested per worker. In the United States, he argues, a surplus of low-wage, immigrant workers suppressed this development, and thus U.S. raisin growers did not adopt the new, productive methods that arose in Australia.

But implicit in his argument is the fact that U.S. employers *did not have to* develop those



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

new forms of harvesting, because their relative costs were lower and labor was not scarce. According to Krikorian, the scarcity of labor in Australia led to technological progress, the kind of thing Simon would have applauded, and the surplus of labor here led to technological stagnation, which hurts an economy in the long run.

By embracing the idea that scarcity leads to innovation, Krikorian assumes that a man like Simon would have welcomed greater scarcity. Under Krikorian's paradigm, we ought to eliminate as many resources as we can, be they labor resources or natural resources, because their scarcity will lead to technological innovation and greater productivity.

In other words, burn down the forests with eager dispatch. We will come up with new alternatives to lumber.

## Need-Based Decisions

Krikorian makes the dual mistakes of assuming better market knowledge than the U.S. raisin growers themselves and of confusing all technological innovation—at all times—with a greater productive use of capital. While the needs of Australian raisin growers led them to come up with new ways of harvesting their crops, and these may have been more productive for *them*, U.S. growers made their decisions based on their own needs. To assume for U.S. growers the responsibility of how best to spend their money and invest in resources is not only arrogant; it also stifles the cost analysis that leads to innovation in the first place.

This may all seem academic at first glance. But it is important. As it happens, Krikorian's argument has been widely disseminated, not only in the online and print versions of *National Review*, but also in the broadcast media, where Rush Limbaugh read his polemic on the air to millions of listeners. It is pervasive, and it is ominous.

Krikorian's messy reinterpretation of Simon's logic is really a tool to support his belief that immigration is not only unnecessary, but that it should be curtailed. At the core of his thinking, and of that of people such as the usually insightful Laura Ingraham, is the honest belief that foreign laborers suppress native wages and harm the economy as a whole.

Perhaps not coincidentally, it was Julian Simon himself who conducted probably the most exhaustive survey of all economic data regarding these claims, and his work refutes Krikorian on every level. In his landmark 1995 paper titled "Immigration: The Demographic and Economic Facts," published by the Cato Institute and the National Immigration Forum, Simon looked at the available studies, and concluded: "The studies uniformly show that immigrants do not increase the rate of native unemployment in the aggregate. The reader need not go further if the conclusion is all that is desired."[3]

However, if one wanted to go further, one could discover that immigration also does not, in the aggregate, suppress wages for native workers. Immigration has a slight dampening effect on wages only in certain sectors of the economy, typically those sectors that depend on immigrant labor. These decreases in wages are often very slight, and the wages rise over time as each sector sees economic improvement. As one study reported: "[T]he evidence we have assembled for the 1980s confirms the conclusions from earlier studies of 1970 and 1980 census data. In particular, we find little indication of an adverse wage effect of immigration, either cross-sectionally or within cities over time. Even for workers at the 10th percentile of the wage distribution, there is no evidence of a significant decline in wages in response to immigrant inflows."[4]

Data like these often go overlooked by commentators. With such information on hand, readers would be able to dispel error and seek out the truth, and in the political realm, this practice is not just an academic exercise. When codified, assumptions can cause great damage. Many people assume that an influx of immigrants will harm the bargaining power of the American worker. But they do not see that a decrease in immigrant workers would mean a decrease in the bargaining power of the consumer.

Some claim that the "jobs no one else will



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

do" would pay higher wages if we just got those pesky foreigners out of the labor pool. They never consider that the consumer would be forced to pay more, and the businessman might not be able to attract the consumer to his product if he had to sell it at a higher price.

Most of all, however, they do not see the dynamic effect that a few extra pennies in each consumer's pocket can have on the economy as a whole. The reason immigrants are not dangerous to the U.S. economy is that they allow consumers to buy the best product they can for the lowest price. This in turn allows the consumer to have more expendable capital perhaps for a *new* American product or business venture, which will employ more people, and in turn help strengthen the economy. Despite what the doomsayers claim, immigration helps us all better our lives. It's what economic progress is all about, and it is why people come to this country in the first place. □

1. Mark Krikorian, "Jobs Americans Won't Do," National Review Online, January 7, 2004, www.nationalreview.com/comment/krikorian200401070923.asp.
2. Quoted in ibid.
3. Julian Simon, "Immigration: The Demographic and Economic Facts," December 11, 1995, www.cato.org/pubs/policy_report/pr-immig.html.
4. Quoted in ibid. from Kristin F. Butcher and David Card, "Immigration and Wages: Evidence from the 1980s," *American Economic Review*, May 1991, p. 296.


## EXPERIENCE AN INTERNSHIP AT FEE:

### EXCITING OPPORTUNITIES YOU WON'T FIND ANYWHERE ELSE

As an intern you will play an integral role at the Foundation and do real work in areas including operations, development, marketing, research, and outreach. FEE interns also have the opportunity for in-house seminars on history and economics. As an intern you will have full access to our extensive library featuring outstanding works on the literature of freedom and its history. In addition, interns are encouraged to attend and participate in our lecture series, programs, and seminars.

**Internship Stipend:** A FEE internship offers a monthly stipend, free lodging, and full use of the Foundation's kitchen and laundry facilities.

**Location, Location, Location:** FEE is situated on a seven-acre estate in Irvington-on-Hudson, just 22 miles north of Manhattan. The Irvington train station is only a brief walk from the Foundation, and a short train ride will take you to Grand Central Station in the heart of New York City.

**Available Internship:** Spring: Early January 2005 to May/June 2005

**Qualifications:** Applicants must be in good academic standing and exhibit a positive interest in the principles of freedom, free enterprise, and classical liberalism. Along with an application and a one-page cover letter, each prospective intern must include one letter of recommendation and a short essay explaining his or her interest in the Freedom Philosophy.

For more information contact:
Ross Haan
Foundation for Economic Education
30 South Broadway * Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230 Fax: (914) 591-8910 www.fee.org




LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# How Unions Are Bankrupting California

*by Steven Greenhut*

If you asked any southern Californian about the biggest union-related news story in recent years, the likely answer would be this year's four-month-long labor dispute between cashiers (and other workers) and three of the region's largest supermarket chains.

The strike/lockout was widely covered for some obvious reasons. It disrupted most people's lives. Store hours at almost all major grocery stores were curtailed; food selection was limited; and shoppers who continued to frequent Ralphs, Vons, or Albertsons stores were forced to cross picket lines manned by increasingly surly workers.

Shouting matches and occasional scuffles between strikers and customers made for good copy. So did revelations that leaders of the strike earned roughly $300,000 a year and that the main sticking point in the contract was a proposal that employees pay between $5 and $15 a week to help fund their generous health-care benefits, a surprisingly paltry amount in an age when most people contribute something to their health plans.

State Attorney General Bill Lockyer kept the matter on the front page after he stood arm-in-arm with the picketers one day, then filed a lawsuit against the store owners the next, accusing them of unfair collusion in their profit-sharing agreement. Other politicians couldn't keep their mugs away from the TV cameras. They rushed in to show solidarity with the union members. This was, indeed, big news.

Yet during that time, and in the few years preceding the strike, the state's media were disturbingly mum about a far more significant labor matter that soon enough would be threatening the wallets of California taxpayers. Quite simply, under the administration of Governor Gray Davis, who was booted from office by Arnold Schwarzenegger during last year's historic recall election, the government had been giving government-employee unions almost everything they asked for. In particular, the governor and the legislature were making outrageous pension promises, with little criticism or exposure by the so-called media watchdogs.

This really was the biggest labor story of recent years, and it touched on the perils of unionization, of government employees in particular.

Ludwig von Mises made the argument against unionization succinctly when he wrote in *Christian Economics* in 1964:

> What is today euphemistically called the right to strike is in fact the right of striking workers, by recourse to violence, to prevent people who want to work from working. This means that the authorities have surrendered to the unions an essential attribute of their governmental func-

*Steven Greenhut (sgreenhut@ocregister.com) is senior editorial writer and columnist for the* Orange County Register *in Santa Ana, California.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tions. . . . The statesmen and politicians who step by step . . . granted this quite exceptional, tremendous privilege to the unions were guided by the belief that raising wage rates above the height the unhampered market would have fixed them is beneficial to all those who want to make a living by earning wages.

If a union succeeds in forcing the employers to pay higher wage rates than those they were prepared to pay under the prevailing state of market conditions, this is not a victory for "labor," i.e., for all those who are anxious to earn wages. It is a boon only for those workers who will be employed at the new rates. It is a calamity for all those whom it condemns to lasting unemployment.

In the private sector, businesses that foolishly cave in to union pressure and intimidation often find themselves scaling back and sometimes going out of business. The Rust Belt is littered with companies that locked themselves into excessively generous salary and benefit packages, only to find that their businesses were incapable of competing in the marketplace. Because of over-generous pensions, American companies found themselves more than $200 billion in the hole after the recent recession, according to published reports.

## Market Reality Check

In the marketplace the bottom line offers a check on bad decision-making. Promise too much, and company profits will tank. Pensions and salaries will have to be reined in if the company is to remain profitable or at least stay in business. But in the government sector the problems of unionization are magnified because there is no bottom line. Politicians have every reason to grant benefits to their political allies.

What happens when the government sector over-promises and the bill comes due? Californians are learning that lesson right now. Taxpayers, of course, are going to be the ones on the hook. Given the degree to which California politicians are politically beholden to powerful government-sector union lobbies, it's unclear whether anyone will stop the hemorrhaging.

In 1999, at the urging of Davis, the legislature passed a bill that allows governments to give public-safety employees—police, firefighters, prison guards, sheriffs' deputies—a "3 percent at 50" pension plan. At age 50, employees could receive 3 percent of their salaries for every year worked, with a top payment of 90 percent of total final salary.

The legislation, which passed with wide bipartisan support but was pushed mainly by the Democratic majority, created an instant 50-percent annual increase in retirement benefits for union workers in localities that approved the pension spike. Before the change, public-safety officials were allowed a "2 percent at 50" plan, which granted top retirement benefits of 60 percent of final salary.

Supporters of the law still argue that it didn't mandate any benefits, but simply gave localities the power to offer added pensions if they could afford them. In reality, once the California Highway Patrol received 3 percent at 50, the floodgates opened. Every police and fire-fighting agency argued that it had to offer similar goodies lest they be unable to attract qualified applicants. That was nonsense; the line for police and especially for firefighting jobs typically goes around the block whenever these highly paid jobs are available in California. But never mind any logic; this was a union power play.

Even though the benefits have spread across the state like a wildfire, and the bill is starting to come due, few politicians are willing to confront the retirement-benefit bonanza.

One of the few warning voices is Orange County Treasurer John Moorlach. He has impressive credentials. In 1994 Moorlach predicted the largest municipal bankruptcy in U.S. history. He saw the trouble signs and provided a detailed analysis to the media, which ignored him.

Moorlach was right. And he is right again, as he predicts statewide budget collapses as the result of the retirement bonanza granted in the midst of the dot-com boom, when



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

politicians and union officials argued that the pension spikes would not cost taxpayers anything. Well, they didn't cost the taxpayers anything as long as the stock market performed at record-setting levels.

## Taxpayers on the Hook

There are two types of retirement plans: defined contribution and defined benefit. Most private-sector employees have the defined contribution variety—a percentage of wages is invested in a set fund. The company is obligated only to provide a set amount of money. If the investment soars, the retiree does well; if it doesn't, the retiree does less well. The company's liability is limited.

Government employees get a defined-benefit plan, which guarantees a rate of return. The formula is: contributions plus investment income minus expenses. If the amount of guaranteed benefits explodes and the investment income doesn't keep up, the employer must make up the difference.

The employer, in the case of public-safety employees, is the taxpayer. Many government employees, such as prison guards and state police, work directly for the state. That means hundreds of millions of dollars of additional costs imposed on an already strapped general fund. Most others, such as local police, county sheriffs, and firefighters, work for municipalities. So these negotiated benefits are sending some cities to the brink of insolvency.

An *Orange County Register* article from February 14, 2003, captured the gist of what was then just starting to happen: "California cities and counties are bracing themselves for the fiscal equivalent of a perfect storm—a combination of the erosion of millions of dollars from their budgets and a deluge of increases in payments to their police officers' and firefighters' pensions." The article quotes city officials in Orange County complaining about devastating increases, such as a 384 percent increase in pension payments in one year in the city of Orange alone. The retirement spike is costing Orange County $400 million, amortized over 30 years. That's one-quarter of what the 1994 bankruptcy cost the county, Moorlach fumes. And this enormous amount is only in one county.

Here's the news from the April 2, 2004, *San Diego Union Tribune*: "San Diego County's pension deficit is larger than originally reported and could require contributions of more than $300 million a year if investment returns do not offset losses, the fund's actuary, Paul Angelo said yesterday. . . . Board members pointed out that throughout California, many pension funds are not currently 100 percent funded because of stock market losses."

Is it because of stock market losses, or because government officials, pandering to a politically powerful interest group, made over-generous promises?

Here's another story from the April 2 *Union Tribune*: "State payments into a giant pension fund that gives 470,000 active and retired state workers some of the best benefits in the nation have soared in the past three years, adding to the state's budget crisis. In a classic case of bad timing, the annual payments the state is required to make to the nation's largest pension fund made a remarkable 18-fold increase as the state struggled with multibillion-dollar budget shortfalls."

Again, is it really bad timing? Or perhaps the same philosophy that got the state into its enormous budget hole also got it into its enormous pension hole. A *Los Angeles Daily News* article from April 4 gets closer to the heart of the problem: "Thousands of retired public employees in California are getting $100,000-plus pensions, and the number will soar in coming years, squeezing government budgets and forcing cuts in services or higher taxes, experts say."

The reason for such high pensions, of course, is gutless politicians. "At all levels of government, the rate of compensation has gone up much more rapidly than it has in the private sector and, most importantly, faster than the personal income of the people who pay for this," Steven Frates, senior fellow at the Rose Institute in Claremont, California, told the *Daily News*. "There has been a



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

wealth transfer. It has gone from the citizens to the people in government," he added. "You often hear people in government cry that there are going to be cuts and we're hurting the poor and the little children. The fact of the matter is the citizens of the state, county and city are making life better, not necessarily for schoolchildren or people in need, but for government employees."

Meanwhile, the city of Richmond, the first California city to offer its cops and firefighters the "3 percent at 50" benefits, teeters on the brink of bankruptcy, in no small part due to that "no cost" benefit.

And the prison guards, the notoriously aggressive union members who secured 35 percent pay hikes over five years and the shutting down of most of its non-union private-prison competition thanks to generous contributions to Gray Davis, were under fire in a wide-ranging prison-corruption probe. The pay and benefit increases were so outrageous that some union officials considered rolling them back slightly.

Corruption, bankruptcy, tax increases, excessive benefits . . . these are the fruits of an aggressive government-sector union movement and politicians who are in sync with its agenda or too fearful of union power to say no. Without a profit-loss balance sheet, such abuses can go on indefinitely. Taxpayers, of course, will have to pay to fix the mess, and—unlike in the corporate world—the abusive government officials and union reps will probably escape any judgment.

Despite the realities, now finally being covered thoroughly in the California media, state voters still seem to choose politicians who promise bigger government and the most taxpayer-funded goodies. It's still a good sell to promise to stand up for the hard-pressed union member, even if that union member typically is an overpaid bureaucrat who is busting the state and local treasury.

There's no ready solution to the current mess. Some critics have argued that if the budget deficit gets deep enough politicians will stop granting even more benefits to the bureaucrats. Fat chance, really. Even as California struggled with a $22 billion deficit and a $7 billion structural deficit, the legislature proposed 100 bills that would have increased spending by $60 billion. Union advocates in the legislature continue to promote plans that would offer even more generous retirement benefits for public-safety officials, allowing them to retire with 100 percent of final pay. Even a fiscal meltdown can't force responsibility on these legislators.

The only answer is to relentlessly cut government in every place and in every way. Note that police, firefighters, and prison guards are the absolute worst abusers of the process. They use their "public safety" status and union power to shame officials into constantly ratcheting up their salaries and benefit packages. It's time to craft alternatives to these "services," to show the public how much safer it can be without these overpaid bureaucrats.

Like Europe, California is facing the consequences of advanced welfare-state sclerosis. Those of you who don't live here shouldn't laugh too hard. The problems documented above are coming to a state capitol near you. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# The Great Horse-Manure Crisis of 1894

We commonly read or hear reports to the effect that "If trend *X* continues, the result will be disaster." The subject can be almost anything, but the pattern of these stories is identical. These reports take a current trend and extrapolate it into the future as the basis for their gloomy prognostications. The conclusion is, to quote a character from a famous British sitcom, "We're doomed, I tell you. We're doomed!" Unless, that is, we mend our ways according to the author's prescription. This almost invariably involves restrictions on personal liberty.

These prophets of doom rely on one thing—that their audience will not check the record of such predictions. In fact, the history of prophecy is one of failure and oversight. Many predictions (usually of doom) have not come to pass, while other things have happened that nobody foresaw. Even brief research will turn up numerous examples of both, such as the many predictions in the 1930s—about a decade before the baby boom began—that the populations of most Western countries were about to enter a terminal decline. In other cases, people have made predictions that have turned out to be laughably overmodest, such as the nineteenth-century editor's much-ridiculed forecast that by 1950 every *town* in America would have a telephone, or Bill Gates's remark a few years ago that 64 kilobytes of memory is enough for anyone.

*Stephen Davies (steve365@btinternet.com) is a senior lecturer in history at Manchester Metropolitan University in England.*

The fundamental problem with most predictions of this kind, and particularly the gloomy ones, is that they make a critical, false assumption: that things will go on as they are. This assumption in turn comes from overlooking one of the basic insights of economics: that people respond to incentives. In a system of free exchange, people receive all kinds of signals that lead them to solve problems. The prophets of doom come to their despondent conclusions because in their world, nobody has any kind of creativity or independence of thought—except for themselves of course.

A classic example of this is a problem that was getting steadily worse about a hundred years ago, so much so that it drove most observers to despair. This was the great horse-manure crisis.

Nineteenth-century cities depended on thousands of horses for their daily functioning. All transport, whether of goods or people, was drawn by horses. London in 1900 had 11,000 cabs, all horse-powered. There were also several thousand buses, each of which required 12 horses per day, a total of more than 50,000 horses. In addition, there were countless carts, drays, and wains, all working constantly to deliver the goods needed by the rapidly growing population of what was then the largest city in the world. Similar figures could be produced for any great city of the time.*

*See Joel Tarr and Clay McShane, "The Centrality of the Horse to the Nineteenth Century American City," in Raymond Mohl, ed., *The Making of Urban America* (New York: SR Publishers, 1997), pp. 105–30. See also Ralph Turvey, "Work Horses in Victorian London" at www.turvey.demon.co.uk.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The problem of course was that all these horses produced huge amounts of manure. A horse will on average produce between 15 and 35 pounds of manure per day. Consequently, the streets of nineteenth-century cities were covered by horse manure. This in turn attracted huge numbers of flies, and the dried and ground-up manure was blown everywhere. In New York in 1900, the population of 100,000 horses produced 2.5 million pounds of horse manure per day, which all had to be swept up and disposed of. (See Edwin G. Burrows and Mike Wallace, *Gotham: A History of New York City to 1898* (New York: Oxford University Press, 1999).

In 1898 the first international urban-planning conference convened in New York. It was abandoned after three days, instead of the scheduled ten, because none of the delegates could see any solution to the growing crisis posed by urban horses and their output.

The problem did indeed seem intractable. The larger and richer that cities became, the more horses they needed to function. The more horses, the more manure. Writing in the *Times* of London in 1894, one writer estimated that in 50 years every street in London would be buried under nine feet of manure. Moreover, all these horses had to be stabled, which used up ever-larger areas of increasingly valuable land. And as the number of horses grew, ever-more land had to be devoted to producing hay to feed them (rather than producing food for people), and this had to be brought into cities and distributed—by horse-drawn vehicles. It seemed that urban civilization was doomed.

## Crisis Vanished

Of course, urban civilization was not buried in manure. The great crisis vanished when millions of horses were replaced by motor vehicles. This was possible because of the ingenuity of inventors and entrepreneurs such as Gottlieb Daimler and Henry Ford, and a system that gave them the freedom to put their ideas into practice. Even more important, however, was the existence of the price mechanism. The problems described earlier meant that the price of horse-drawn transport rose steadily as the cost of feeding and housing horses increased. This created strong incentives for people to find alternatives.

No doubt in the Paleolithic era there was panic about the growing exhaustion of flint supplies. Somehow the great flint crisis, like the great horse-manure crisis, never came to pass.

The closest modern counterpart to the late nineteenth-century panic about horse manure is agitation about the future course of oil prices. The price of crude oil is rising, partly due to political uncertainty, but primarily because of rapid growth in China and India. This has led to a spate of articles predicting that oil production will soon peak, that prices will rise, and that, given the central part played by oil products in the modern economy, we are facing intractable problems. We're doomed!

What this misses is that in a competitive market economy, as any resource becomes more costly, human ingenuity will find alternatives.

We should draw two lessons from this. First, human beings, left to their own devices, will usually find solutions to problems, but only if they are allowed to; that is, if they have economic institutions, such as property rights and free exchange, that create the right incentives and give them the freedom to respond. If these are absent or are replaced by political mechanisms, problems will not be solved.

Second, the sheer difficulty of predicting the future, and in particular of foreseeing the outcome of human creativity, is yet another reason for rejecting the planning or controlling of people's choices. Above all, we should reject the currently fashionable "precautionary principle," which would forbid the use of any technology until proved absolutely harmless.

Left to themselves, our grandparents solved the great horse-manure problem. If things had been left to the urban planners, they would almost certainly have turned out worse. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Where in the World Can You Find Economic Freedom?

*by George C. Leef*

Late 2003 saw the release of the most recent editions of two publications that rank the nations of the world according to their degrees of economic freedom. The Fraser Institute, located in British Columbia, put out the eighth edition of its *Economic Freedom of the World* and the Heritage Foundation and *Wall Street Journal* published the tenth in their *Index of Economic Freedom* series. Much can be learned about the meaning and importance of economic freedom from both publications. I must, however, register a terminological complaint: Even if the citizens of the United States are less economically controlled than the citizens of most other countries, that does not mean Americans are "free."

In Fraser's survey, the United States (tied with New Zealand, Great Britain, and Switzerland) remained the third freest economy in the world, behind Hong Kong and Singapore. But in the Heritage/*Wall Street Journal* study, the United States *slipped* from third to tenth! Three nations—Luxembourg, New Zealand, and Ireland—all moved ahead of the United States.

Where this country scores least well in these analyses is in the government's fiscal burden. While the United States is exceptionally strong in such areas as monetary stability and property rights, its fiscal-burden scores are much weaker. Thus if government officials here were interested in increasing economic freedom, the place to start would be with a reduction of the vast federal budget. Unfortunately, the gigantic spending spree of President Bush and the 108th Congress will probably cause the United States to lose ground in subsequent editions of both publications. (In this regard, see Veronique de Rugy, "The Republican Spending Explosion," Cato Institute Briefing Papers No. 87, March 3, 2004, www.cato.org/pubs/briefs/bp-087es.html.)

Most Americans take their high standard of living for granted and never contemplate the conditions that make it possible. Sport utility vehicles and Palm Pilots . . . DVD players and Nike shoes . . . fresh orange juice and robotic vacuum cleaners . . . townhouses and jewelry. We are able to enjoy a fantastic assortment of goods and services that make life longer, easier, and more pleasant. But what conditions make it possible for us to produce and purchase them? Or, to look at it another way, why is it that the inhabitants of countries like Zimbabwe, Uzbekistan, or Cuba cannot purchase such things? Ask your typical American if there is some connection between prosperity and economic freedom and you'll get a shrug and an answer like, "Maybe . . . I guess so."

The most valuable part of these two reports is that they make it unmistakably clear that national standards of living depend on economic freedom. Nations with high scores on economic freedom invariably

*George Leef (georgeleef@aol.com) is book review editor of* The Freeman.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

have higher average incomes than nations with low scores. Furthermore, nations that increase their scores (such as Estonia, once a repressed part of the Soviet Union, but now one of the freest countries) see corresponding increases in their people's living standards. Conversely, nations that decrease economic freedom (such as Venezuela, a once relatively free country now suffering under a quasi-Marxist military dictatorship) see their living standards fall. We aren't just talking correlation here; we're talking causation. The Fraser study sums it up this way: "[S]maller government, rule of law, sound money, and general economic freedom will almost certainly guarantee wealth for its citizens. People left alone will generally prosper."

"Prosperity" does not just mean that people can buy sophisticated gadgets. It is far more elemental. *Economic Freedom of the World* notes that in "unfree" nations life expectancy is only 55 years; in "free" nations it is over 77 years. In "unfree" nations only half the people on average have access to improved sanitation facilities, while in "free" nations 99 percent do. Escape from the Hobbesian world, where life is poor, solitary, nasty, brutish, and short, depends on economic freedom.

## Knowledge Gap

Our typical American might at this point nod and say, "Yes, I get it." But then if you asked what economic freedom consists of, you'd probably get a long silence. Both publications give the reader the knowledge needed to fill the gap, detailing the analysis that went into the scoring. The *Index of Economic Freedom* employs 50 variables that fall into these categories: trade policy, the fiscal burden, intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity. *Economic Freedom of the World* works with 38 variables under these headings: the size of government—expenditures and taxes; legal structure and the security of property rights; access to sound money; freedom to exchange with foreigners; and regulation of credit, labor, and business.

The point that the perceptive reader will grasp, but perhaps should be made more explicit, is that economic freedom isn't like a light switch—either on or off. Instead, it is composed of numerous moral choices, a few of which call for government to do certain things (protect property rights, for example) and not to do quite a few others (dictate wages and prices, impose barriers to starting new businesses, interfere with trade, tax people heavily, and so on).

"So that means that we have less economic freedom because of our Social Security system, our minimum wage laws, our income tax rates, licensing requirements, import tariffs, and many other such laws and programs," the perceptive reader will realize. Right! Most of the hallmarks of American economic and social policy during the twentieth century are incompatible with economic freedom. A vast number of the policies that most Americans unthinkingly accept and approve are losses of economic freedom. A full list would be nearly impossible, but I wish that the studies said more plainly that most government expenditures, programs, and regulations make us less free.

It's too bad that neither study discusses in detail the reasons why the United States gets the far-from-perfect scores that it does. That would be a valuable companion document.

*Economic Freedom of the World* scores the United States 8.2 on a ten-point scale for size of government. What's behind that number? How much government spending—which necessarily means forcibly taking away money that would otherwise go into personal spending—would have to be cut for the United States to get a 10? If the implication of getting an 8.2 is that government here is overspending by 18 percent, that seems far too low to me.

Both reports group nations into broad categories—free, mostly free, mostly unfree, and repressed—based on their scores. As noted, in *Economic Freedom of the World* the United States is ranked third and in the *Index of Economic Freedom* it is ranked



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tenth. That puts us near the top of the category of "free" nations. But let's hold off on any celebrations.

## Freedom in America

The problem is that to a great extent, Americans are not free. We have to put up with economic restraints and commands from the state that would have had our forebears up in arms. Unfortunately, it may bolster the forces of governmental expansion to be able to point to our "free" designation and say, "Look, with all of our laws and programs, we're still a free country." Truly bold big-government advocates might even claim that we're "free" *because of* our vast assortment of laws and regulations and therefore we should have more. How about the added "freedom" that would come from completely socialized medicine?

A more accurate way of stating the matter would be to say that Americans are less regulated and controlled than people in most other countries. "Free" implies an absolute state, an *absence of governmental control.* All that we can really say from these reports is that Americans are *comparatively less repressed* than most other people. Someone who is allowed to walk around inside a prison isn't free just because other prisoners are tightly shackled to the walls.

Consider the matter of taxation. Thanks to our income tax, Americans spend much of the year working for government. Tax Freedom Day, as calculated by the Tax Foundation, is April 19, an improvement over recent years, but still too late. (See www.taxfoundation.org/taxfreedomday.html.) So the average citizen works from January 1 until April 19 just to pay his taxes, and only after that is he earning money to spend according to his own desires. (That's for the average citizen. Those in the highest federal and state tax brackets work even longer to satisfy the demands of the politicians.) We don't really own our labor—government has staked out a prior claim to a large percentage of anything we earn. Taxation is worse in many other nations, but that doesn't make us free.

What about our property rights? In a "free" country each person's property would be protected by law against theft or destruction. In both studies, the United States receives high scores when it comes to property rights, but see how much that impresses an individual who has lost property under the aggressive application of civil-asset forfeiture laws. It is possible for a person to face confiscation of his bank account, house, car, cash, and anything else just because a law-enforcement official suspects he may be involved in the sale of drugs or other crimes. Numerous appalling cases are detailed in Randall Fitzgerald's recent book, *Mugged by the State.* In a truly free country the police are not allowed to steal property to pad their budgets and make hapless citizens go through difficult and costly legal hoops if they want to get it back, even if declared innocent of any wrongdoing. Maybe such governmental rip-offs are more prevalent in other countries, but that doesn't mean we are "free."

Americans living in 2004 are much less free than Americans living in 1904. Government not only confiscates far more of our income in taxes than it used to, but its laws and regulations have spread into most facets of life. In labor markets, product markets, housing markets, and credit markets Americans now face voluminous, sometimes conflicting regulations from federal, state, and local authorities telling them what they must and must not do. Just to cite two egregious examples, our crusades for environmental purity and multicultural diversity have spawned huge bureaucracies with the temperaments of junkyard dogs, eager to tear into anyone who has in some way displeased them.

The United States used to be a free country, but it isn't any more. As Paul Craig Roberts writes: "It is a paradox that a country that has abandoned freedom and reenserfed its population sees itself as role model for the world." □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# The Facts about World Hunger

*by Jim Peron*

The headline in the *New York Times* screamed: "World Hunger Increasing, New U.N. Report Finds." Coming as it did just two days before Thanksgiving, the irony couldn't be lost on the average reader. The opening paragraph made clear that the situation was dire. "The number of hungry people worldwide swelled in recent years, particularly in sub-Saharan Africa, thanks to war, drought, AIDS and trade barriers, according to a report released today by the United Nations Food and Agricultural Organization" (FAO).[1]

What exactly is happening here? Haven't market liberals been applauding the good news that world hunger is diminishing? Didn't the left-of-center Bjørn Lomborg make that same point in his book, *The Skeptical Environmentalist*? Have the environmental doomsayers finally been proven right?

The headline was not quite accurate. The FAO report, "The State of Food Insecurity in the World 2003," covers undernourishment in the developing world only from base years 1990–1992 to 1999–2001. The results can depend on how that time frame is examined. During the full period, the number of undernourished dropped both in raw terms, from 816.6 million to 797.9 million, and in percentage terms, from 20 percent to 17 percent.[2] But if the period is divided into halves, a slightly different picture emerges. The raw number of undernourished dropped to 779.7 million in the first half, but then increased to 797.9 million in the second. The increase in the second half is less than the decrease in the first half, meaning that over the whole period the raw number still declined by 18.7 million. During that same period, the population of the developing world increased by a massive 662.2 million. Thus within a ten-year period, about 681 million additional people were being fed.[3]

The choice of base year can also affect how dramatic the decline in hunger will appear. The report uses 1990–92. From then until now the undernourished proportion of the population declined from 20 percent to 17 percent. Had the UN gone back one decade further, the decline would have been more impressive, since in 1980, 28 percent were hungry. While the improvement may have slowed down, we should not overlook that this is still an improvement.

The *Times* reported "that more than 840 million people, or 1 in 7 world-wide, went hungry." The foreword to the report says: "[A]n estimated 798 million were undernourished in 1999–2001." Why the discrepancy?

The UN report basically covers the developing world. But in one section it mentions a total world figure of 842 million, which includes 10 million in the industrialized nations and 34 million in transitional

*Jim Peron (esteem@orcon.net.nz) is editor of* Free Exchange, *a monthly newsletter, and the owner of Aristotle's Books in Auckland, New Zealand.*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

nations, mainly the former Soviet bloc.[4] In a sense that 842 million figure is a combination of apples and oranges. Being undernourished in London and being undernourished in rural Tanzania are two different things.

The general improvement in undernourishment rates applies across most of the globe. During the last decade, hunger rates dropped in Asia and the Pacific from 20 to 16 percent and in Latin America and the Caribbean from 13 to 10 percent. Even sub-Saharan Africa's rate dropped from 35 to 33 percent. Only in the Near East and North Africa did rates go up, from 8 to 10 percent. Some of the subregions had rather impressive declines. East Africa saw a decline from 44 to 39 percent; Southern Africa, from 48 to 41 percent; West Africa, from 21 to 15 percent; East Asia, from 20 to 16 percent; and South America, from 14 to 10 percent.[5]

Such large regional drops in hunger rates were ignored by the *Times*. It reported instead: "Only 19 countries, including China, reduced hunger among its people throughout the 1990s." That is simply not true. The real number is far in excess of 19. The reporter apparently misread the report, which says: "In 19 countries, the number of chronically hungry people declined by over 80 million between 1990–1992 and 1999–2001."[6] The *Times* inserted the word "only," giving the impression that everywhere else hunger increased or stayed the same. The word "only" is not in the report for good reason. The report ignores many countries where hunger is not a problem. (The word "only" did appear in an FAO press release. But the context made clear that this is 19 countries within the developing world only, and it doesn't say they were the only developing nations where the rate improved.)

The report's statistical tables tell a different story from the one the *Times* told. The tables clearly show that of the 90 developing nations, 32 saw a reduction in the total number of undernourished people. In 60 nations, or two-thirds of the developing world, the total number went up, but as a percentage of the population, the rates actually declined.

## A Few Bad Places

The problem is that a few spots in the world are suffering badly. As noted, hunger is up from 10 to 14 percent in the Near East;[7] in Central Africa it was even worse. Hunger rates there went from 35 to 58 percent.[8] By looking at the nations that saw dramatic shifts in undernourishment rates, either improvements or declines, we can start to pinpoint some of the major causes of world hunger today.

For instance pro-market reforms in China are clearly having benefits. At the beginning of the last decade the number of undernourished there was 193 million. Even though the population increased by 105.5 million, the number of undernourished declined almost 58 million—to a raw total of 135.3 million. The percentage of undernourished dropped from 16 to 11 percent. On the other hand, hard-line socialist North Korea saw the opposite happen. During the base years 18 percent of North Koreans were undernourished, but by the end of the decade, the rate had increased to 34 percent.[9]

In Vietnam, markets were liberalized and the number of undernourished dropped from 27 to 19 percent. In Venezuela a "pro-poor" socialist government took over and the rate of undernourished jumped from 11 to 18 percent.[10]

It quickly becomes clear that world hunger today is not caused by a strain on the planet or an inability to produce food, as many environmentalists have contended. Hunger today is primarily a politically induced problem. As FAO director general Jacques Diouf says, "Bluntly stated, the problem is not so much a lack of food as a lack of political will."[11]

Hunger is routinely caused by bad economic policies or armed political conflict. The cessation of conflict in Angola brought undernourishment rates down from 61 to 49 percent. In Mozambique the end of the civil war saw a decline from 69 to 53 percent. In contrast, the continuing conflict in the Democratic Republic of the Congo increased the rate from 31 to 75 percent.[12] The FAO report noted: "Eight countries suffered



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

[food] emergencies during 15 or more years during 1986–2003. War or civil strife was a major factor in all eight."[13]

Undernourishment figures for the Near East, another region where hunger increased, show a similar pattern. For the region as a whole the UN says the rate increased from 10 to 14 percent. But if you exclude Iraq and Afghanistan, the rate would have hardly changed—from around 6 percent to 6.5 percent.[14]

## Economic Growth Is Key

A key factor in reducing hunger is economic growth. The report notes: "In countries that succeeded in reducing hunger throughout the nine-year period, GDP per capita grew at an annual rate of 2.6 percent—more than five times higher than the rate in countries where undernourishment increased in both subperiods (0.5 percent)."[15] If, as the report notes, strong economic growth is associated with a reduction in hunger, then globalization is critical to ending world hunger. A World Bank report has stated that "the more globalized developing countries have increased their per capita growth rate from 1 percent in the 1960s, to 3 percent in the 1970s, 4 percent in the 1980s, and 5 percent in the 1990s. Their growth rates now substantially exceed those of the rich countries."[16] The FAO report acknowledges this: "Overall, countries that are more involved in trade tend to enjoy higher rates of economic growth."[17]

This doesn't meant that nature has no role to play. Many food-insecure countries are still plagued by periodic droughts and/or flooding, which limits their ability to grow food. On the other hand, even these problems are exacerbated by local cultural and/or economic policies. Many African countries promote subsistence farming in the belief that a nation of farmers will never go hungry. But only a nation of farmers can starve to death since during natural disasters they have nothing to trade for food. The FAO report verifies this indirectly: "Throughout the developing world, agriculture accounts for around 9 percent of GDP and more than half of total employment. But its relative importance is far greater in those countries where hunger is most widespread. In countries where more than 34 percent of the population are undernourished, agriculture represents 30 percent of GDP, and nearly 70 percent of the people rely on agriculture for their livelihoods."[18]

Today the West gets blamed for protectionist agricultural policies that keep out imports from the Third World. A change in such policies is needed immediately. But change will help only those Third World countries that have liberalized their domestic markets. Generally speaking, the nations that have liberalized are not the ones still suffering high rates of hunger. The nations that are starving are mainly the victims of local politics and internal warfare. The planet can well feed the numbers we have now and many, many more. The problem isn't unsustainable development or an inability to produce. It's a problem of getting governments out of the way. □

1. Somini Sengupta, "World Hunger Increasing, New U.N. Report Finds," *New York Times*, November 25, 2003; http://college3.nytimes.com/guests/articles/2003/11/25/1126810.xml.
2. Food and Agricultural Organization of the United Nations, "The State of Food Insecurity in the World, 2003," p. 31; www.fao.org/docrep/006/j0083e/j0083e00.htm.
3. Calculations based on tables in ibid.
4. Ibid., p. 6.
5. Ibid., pp. 31–32.
6. Ibid., p. 4.
7. Ibid., p. 32.
8. Ibid.
9. Based on table in ibid., p. 34.
10. Ibid., p. 31.
11. Ibid., p. 4.
12. Ibid., p. 32.
13. Ibid., p. 14.
14. Based on tables in ibid., p. 32.
15. Ibid., p. 8.
16. World Bank, *Globalization, Growth, and Poverty* (New York: Oxford University Press, 2002), p. 5.
17. "The State of Food Insecurity," p. 16.
18. Ibid.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

# CAPITAL LETTERS

## Everyone Benefits from Free Trade

**To the Editor:**

Victor Matheson's favorable review of Jagdish Bhagwati's *Free Trade Today* (March) is good. However, in explaining why it's difficult to achieve widespread appreciation of the benefit of free trade, he errs in saying, ". . . free trade does not benefit everyone equally."

It's not free trade, but *the freeing up* of trade that produces unequal benefits. The process of eliminating protection or subsidization of industries can cause losses for workers and owners in those industries. However, once the process is complete and free trade is established, everyone benefits from it.

Sure, under free trade some are better off than others; however, that's the result not of free trade but of differing degrees of entrepreneurship, industry, perseverance, education, intelligence, physical ability, location, fortune—all the factors that differentiate life in general among people.

The distinction between the effects of *free trade* and *the freeing up of trade* is all-important. For if we are to achieve the widespread understanding necessary to eradicating all the government intervention in international trade that lowers standards of living, it must be recognized that it's the process of freeing up trade, not free trade, that can produce unequal benefits.

—Donald Marsh
*Bainbridge Island, Washington*

**Victor Matheson replies:**

Mr. Marsh is entirely correct in his assessment. Unfortunately, even in a country like the United States with relatively open borders, trade barriers, both overt and hidden, exist in large numbers, and any attempt to move to freer trade will result in winners and losers. Mr. Marsh's accurate but subtle argument is likely to be lost on those who have lost their jobs as a result of foreign competition. One very practical suggestion that is raised by his comment, however, is that it is essential to prevent trade barriers from rising in the first place as this will be much easier than removing them once they become well entrenched.

## The Wreckers of 2004

**To the Editor:**

The article by Daniel Hager on the "wreckers" of the communist paradise in the Soviet Union of the 1930s is much more than just an interesting footnote to a chilling time in history ("The Lessons of Another Tolstoy," January–February). Politicians of today continue to look for scapegoats to explain away the failures of government interventions into economic activity.

All government interventions in marketplace activity get caught somewhere between F. A. Hayek's fatal conceit and the law of unintended consequences. When real-world circumstances reveal the faults of the interventions, [then] politicians, bureaucrats, and the special-interest groups that supported the interventions have to blame someone. What better group than the shadowy group of wreckers who thwart the efforts for ideological reasons?

We have all heard about those "Benedict Arnold" CEOs of U.S. companies who contract with workers in other countries and set up operations in foreign lands beyond the reach of the federal government. While these company managers have sound economic reasons for choosing other places to do business to meet the needs of consumers and produce income for stockholders, the politicians accuse them of abandoning the U.S. workers without considering the high taxes and burdensome regulations they have imposed on businesses.

Or, how about the shortcomings of local school administrators who are the justification for the Bush administration's No Child Left Behind Act for further intrusion into



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

decision-making by local schools. Rather than facing the reality that the experiment with government schools has been a failure, the federal bureaucrats look for local bureaucrats to blame for the problems. . . .

Doctors and hospital administrators can be added to the current list of wreckers. Their efforts to deliver health-care services frustrate those who have spent the past 40 years turning the health-care delivery system into one managed by governments. For every real and perceived failure of the current system, defenders of government intervention have some health-care provider to blame, without ever thinking that the problem is the system they have created. Lots of others could be added to the list. . . .

The good news is that modern-day wreckers are not put before actual firing squads, even though they have to suffer the sticks and stones of political attacks. We have the opportunity to learn from history that the problem is the government intervention into the economy.

—Ross Korves
*by e-mail*

## Factories Don't Move Abroad

Gene Callahan in "It Just Ain't So!" (May 2004) provides an excellent primer on why outsourcing is merely a modern extension of free-trade theory. However, he misses an important point regarding an example that he attributes to Paul Craig Roberts: "Roberts claims that there is a fundamental economic difference between an American's purchasing clothing from a Chinese manufacturer and his purchasing it from another American who has opened a factory in China. In the first case only the clothing moves internationally, while in the second case capital also moves."

The American who opened a factory in China has almost certainly done so by purchasing a Chinese factory or by purchasing Chinese land, labor, and other resources to build the factory. That the American had boxed up an American factory and transported it to China seems quite unlikely. Yet only in this latter case is real American capital in the form of resources or plant, equipment, and inventory moved to China.

Excluding intellectual or human capital, which can be flashed around the world via telecommunications and the Internet, real physical capital remains a relatively immobile resource.

—E. Bruce Hutchinson
Bruce-Hutchinson@utc.edu
Professor of Economics
University of Tennessee at Chattanooga

**Gene Callahan replies:**

Dr. Hutchinson brings up an important point, but one which, I believe, is very much in line with what I was attempting to say in my article. It is quite true that it will be very rare for an American capitalist to move a factory to China—instead, he will typically send his dollars there. However, as I noted, whether the construction of a new plant is funded by American dollars, Swiss francs, or Chinese yuan, if the conditions for producing some good are more favorable in China than in the United States, it is ultimately futile to attempt to prevent the value of the good's mobile factors of production from increasing in China vis à vis the United States. The essence of capital lies not in the physical characteristics of various configurations of machinery and material, but in the value humans place on those items as way stations in their plans to produce a consumer good.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

# BOOKS

## The Company of Strangers: A Natural History of Economic Life

by Paul Seabright

Princeton University Press • 2004 • 304 pages • $29.95

*Reviewed by Richard M. Ebeling*

One of the most profound insights of economics is that the activities of billions of people can be coordinated without central direction and without most of these interdependent people knowing anything about one another.

This interdependency not only spans all the continents of the world but also stretches across time. There are people right now extracting some raw material from the ground, or planting some seeds in the soil, or beginning the manufacturing process of some commodity, which—days, months, or even years from now—will satisfy other people's wants for multitudes of goods. Even more astonishing is that practically all these people have little or no idea of the "bigger picture" of how their diverse and decentralized actions all fit together in an intricate network of exchange relationships that bind humanity into one commercial community. Equally amazing, it is not necessary for any of these people to understand how all their actions are connected for each one to find his niche and perform his specialized role in the division of labor.

Yet precisely because most people do not have to understand how this all works, numerous misconceptions abound about the nature of the system. This often leads to government policies that do serious harm to the maintenance and continuing success of the international economic order. That is why it is important to constantly remind both scholars and laymen of the basis of this international order, and of the threat from misguided public policies.

This is the theme of Paul Seabright's recent book, *The Company of Strangers: A Natural History of Economic Life*. Seabright goes far beyond the narrow field of economics to incorporate recent research in history, anthropology, sociology, and psychology. Among the benefits from an extended division of labor, he explains, are that risks can be shared, greater specialization can be developed, and a wider accumulation of knowledge can occur. But to take full advantage of these benefits, mankind had to go far beyond the small hunter-gatherer tribe or primitive agricultural community, to include people outside the immediate circle of family and non-relatives in the closed group.

The circle of association, cooperation, and exchange had to include "strangers" if the division of labor was to be significantly expanded. But how did primitive man come to *trust* strangers? Being outside the narrow tribal band, they were competitors for the basic physical means of survival; they were "the others" who might kill, rob, or enslave you.

In the process of primitive man's evolution, Seabright argues, two qualities developed: the capacity for rational calculation and the sentiment for reciprocity. When primitive man first began offering or receiving opportunities for trade, he might well have thought that deceit and theft could be to his advantage in the encounter with the stranger. But reflection would have made him realize that there might be benefits from future interactions with such strangers, meaning that in his own longer-run self-interest any such repeated transactions could only be assured if he kept his word and abided by any agreement. At the same time, various social experiments have suggested that people generally follow a psychology of "tit for tat"; that is, even if repeated transactions are not expected, individuals will mostly reciprocate with either generosity or malice, depending on how another has behaved or is expected to behave toward them. Thus general kindness and honesty by some individuals tend to beget the same from others. Psychological and physiological studies have also shown how smiling and laughter—and their actual and perceived sin-



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cerity—reinforce bonds of trust, confidence, and association among people outside their narrow circle of family and friends.

Seabright discusses the role of money as an institution that facilitates the interconnections of multitudes of individuals unknown to one another through the willingness to accept a commodity whose only or primary usefulness is to be traded for other goods. The unease which some feel that money depersonalizes human relationships, he argues, is more than outweighed by the liberating anonymity that monetary relationships introduce for individuals in society. The greater trust that existed in more intimate face-to-face relationships has been replaced with "purchased trust" in the form of product warranties and brand-name reputations that stand behind goods and men in their dealings with one another.

Also behind the growth of an extended division of labor are the general and abstract rules of association that leave much of society's development uncertain and unpredictable. Yet it is only when governments are mostly limited to securing life, liberty, and property that people have the latitude for creativity, imagination, and innovation, along with the freedom from political constraint to experiment in the arts and sciences, as well as with industrial technology and general cultural change.

Seabright applies these ideas to a variety of themes and topics. He emphasizes that a growing multitude of interacting human beings will have many different views concerning the value of things and the ends to pursue. The social institutions of property and exchange serve as means to resolve these differences through the price system. He illustrates this with the problem of the growing scarcity of water in many parts of the world, the competing demands for which may be reconciled through peaceful market competition.

Seabright also highlights how social order and patterns often emerge out of the spontaneous interactions of men, without any imposed design or command. Drawing on some of the writings of Jane Jacobs, he shows how safety and trust emerge in urban neighborhoods without a policeman or a social planner at every corner. He explains how markets have transformed the original "business unit" of the traditional family into the modern corporate firm. And he discusses how human knowledge has been preserved and shared, from the primitive symbols on the walls of caves to the intricate and virtually instantaneous means for transmitting information around the modern world.

Though Seabright explains and defends the vast benefits of market globalization, he is not an advocate of laissez faire. He sees various problems concerning "negative externalities" and "public goods" that require extensive government intervention, as well as the need for a welfare state to assist those "harmed" by market change. Nonetheless, his book offers a fascinating and extremely informative panorama for understanding how the human race has evolved from the simple hunter-gatherer into modern man in the global society. □

*Richard Ebeling is the president of FEE.*

## Saying Yes: In Defense of Drug Use

by Jacob Sullum

Tarcher/Putnam • 2003 • 340 pages • $25.95

*Reviewed by Paul Armentano*

Like ex-President Bill Clinton and former Vice President Al Gore, author Jacob Sullum admits he's smoked marijuana. He's also dabbled with psychedelics, cocaine, opioids, and tranquilizers. But unlike so many political figures, Sullum offers no mea culpa for his past vices in *Saying Yes: In Defense of Drug Use*. Rather, he confesses his "sins" to illustrate that the typical recreational drug user bears more resemblance to someone like him (or even the ex-president) than the drug war's stereotypical poster boy: the down-and-out street-corner junkie.

However, it's precisely those like Sullum who have been AWOL from America's drug-policy debate. The reason is obvious. Admitting to illicit drug use risks harsh legal and economic sanctions. Because of this, Sullum



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

writes that "people who use illegal drugs in a controlled, inconspicuous way are not inclined to stand up and announce the fact. Prohibition renders them invisible."

Those who favor America's present prohibitionist policies would prefer they stay that way. From the drug warriors' standpoint, even acknowledging the existence of such a class strikes a blow to their entire justification for the drug war, as summarized by the Drug Enforcement Administration (DEA): "Drugs undo the bounds that keep many seemingly normal people on an even keel."

Sullum counters this assumption by bringing the "silent majority" out of their smoky closet. His purpose "is to contrast drug use as it is described by politicians and propagandists with drug use as it is experienced by the silent majority of users: the decent, respectable people who, despite their politically incorrect choice of intoxicants, earn a living and meet their responsibilities. The lives they lead challenge a central premise of the war on drugs—that certain substances have the power to compel immoral behavior."

Sullum includes within this majority computer programming guru Bob Wallace, an early employee of Microsoft, founder of Quicksoft, and a pioneer in the concept of shareware. Wallace (who died shortly before the book's publication) was a daily pot smoker, one of 32 "controlled drug users" Sullum interviewed for *Saying Yes*. In most cases, their stories are remarkably similar: Illicit drugs are something they enjoy—or in some cases, enjoyed—responsibly and in moderation. Moreover, almost all declare that their illicit drug use seldom posed any significant problems in their personal or professional lives. Sullum draws from these testimonials, as well as his own experiences, not to absolve drugs as potentially harmful substances, but to reinforce his point that the vast majority of illegal drug users harm neither themselves nor others.

"Just as writing about moderate drinking does not mean denying the harms caused by alcoholism, writing about controlled drug use does not mean denying the damage done by destructive relationships with illegal intoxicants," Sullum maintains. "Rather, my intent is to add some balance to the public debate by pointing out that excess is the exception."

*Saying Yes* is not so much a defense of casual drug use (as the subtitle implies) as a plea to draw rational, legal distinctions between between use and abuse, and to base our laws accordingly.

If what Sullum calls "voodoo pharmacology" is a myth, he believes it's illogical for the law to treat illicit drugs any differently from alcohol.

Consequently, only when drug-law critics tackle voodoo pharmacology (rather than the negative effects of the drug *war*) will they succeed in changing America's drug policies. □

*Paul Armentano is a senior policy analyst for the NORML Foundation in Washington, D.C.*

## The War Against Excellence

by Cheri Pierson Yecke

Praeger • 2003 • 260 pages • $49.95

*Reviewed by George C. Leef*

The 1983 "A Nation at Risk" report famously stated that "If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war." Since then, there has been a great deal of talk about improving the educational system and some legislative developments purporting to "raise standards." On the whole, though, it's hard to perceive any improvement, and if Cheri Pierson Yecke is correct in the *War Against Excellence*, things have gotten worse, particularly at the middle-school level.

Yecke, Minnesota's former education commissioner, has penned another in the stream of books exposing the deplorable truth about government schools. The education establishment is quite happy that about 88 percent of all children attend government schools, and it invests mightily in public relations to keep everyone con-



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

vinced that "public education" is doing wonderfully, but just needs more money. Yecke pulls back the curtain to reveal that over the last 20 years or so, middle schools (usually grades 6–8) have been infested with an alarmingly anti-education mindset.

According to the author, five beliefs that "progressive" education theorists embrace have infiltrated the middle schools. (Yecke does not say that these views are confined to middle school—they certainly are not—only that the problem seems worst there.) The beliefs are: in the equality of educational outcomes; in questioning the value of individualism; in the supremacy of the group over the individual—as well as the belief that advanced students have a duty to help others at the expense of their own needs and that competition is negative and must be eliminated.

If those ideas sound like egalitarianism, that's just what they are.

Yecke quotes University of Florida professor Paul George, who states that middle schools should become "the focus of societal experimentation, the vehicle for movement toward increasing justice and equality in the society as a whole." Schools, he writes, "are not about taking each child as far as he or she can go. They're about redistributing the wealth of the future."

The United States has always had plenty of educational theorists eager to use government schools as laboratories for their dubious notions about the reformation of society, but the current crop seems to have been particularly effective in getting theirs implemented. Yecke discusses several distressing manifestations of those egalitarian beliefs.

One is the attack on ability grouping. Schools have customarily put brighter students in accelerated classes and sometimes grouped slower students for special attention. To the egalitarian theorists, naturally, that practice is both educationally bad and morally wrong. They have insisted that schools end ability grouping, and quite a few have done so.

What's so bad about ability grouping? Supposedly, it contributes to "the stratification of society." If gifted kids could be slowed down, the thinking goes, they wouldn't be so successful later in life, thus taking a big step toward "social justice."

Even if you buy into coercive redistribution, why take steps to reduce the future output of ideas, inventions, and wealth? Abolition of ability grouping has been resisted by parents of gifted children, who resent having their kids held back so the education theorists can enjoy their utopian daydreams. Unfortunately, when those parents have complained, they've often run into a stone wall.

Another manifestation of rampant egalitarianism is "cooperative learning," the notion students should work and be graded in groups rather than individually.

The obvious problem with cooperative learning is that the smarter kids do most of the work, but must share the credit. To our egalitarian theorists, this approach to education tells the bright kids that they have to "share" their talents. The best thing one can say is that it alerts them early on that they will be treated as social resources to be exploited in the future through the income tax.

*The War Against Excellence* is bound to increase the number of parents who bail out of government schooling. □

*George Leef is the book review editor of* The Freeman.

## A History of the Federal Reserve, Volume I: 1913–1951

By Allan H. Meltzer

University of Chicago Press • 2003 • 800 pages • $75 hardcover; $25 paperback

*Reviewed by Christopher Mayer*

The Federal Reserve System began operations in 1914, 11 months after passage of the congressional act that created it. Rooted in European thinking and modeled after the Bank of England, the Fed was a political animal that encountered difficulties right out of the gate. Hardly independent, the Fed was often under the thumb of the U.S. Treasury. Its purpose was a confusing



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mash of varying economic theories and political goals.

In this book, Allan Meltzer chronicles Fed history with an amazing eye for detail—minutes, speeches, books, journals, letters are all culled as footings for his narrative. The author is to be commended for his wide survey of primary sources. Unfortunately, Meltzer's prose leaves something to be desired. It is professionally written, no doubt, but it is as dry as the driest of autumn's fallen leaves. Slogging through this dense book will be difficult for all but the most ardent Fed followers.

Meltzer, who teaches at Carnegie-Mellon University and specializes in monetary theory, gives the reader a conventional history. Indeed, Fed Chairman Alan Greenspan himself wrote a kind foreword to the book, calling it both "stimulative and provocative." Meltzer is even-handed in his assessments of various actors and their ideas and his representation of their goals; he seems to take everyone at face value. One sees none of the conspiratorial overtones, for example, regarding the Fed's snug relationship with the banking industry. Not surprisingly, in perusing his list of sources, you will not find references to Murray Rothbard or Edward Griffin (author of *The Creature from Jekyll Island*). As a result, this book might be little else than a reference for details otherwise hard to uncover or find in one place.

There are lots of details about specific policy debates that Fed members had with one another and others outside the Fed. But those details are likely to be of little interest to libertarian-minded readers. It's like listening to burglars debate how they are going to break into a house. To the libertarian, such considerations are irrelevant—the house should simply not be broken into. Similarly, one tires of hearing Fed governors pontificate about their tools for manipulating the economy—the economy should simply not be manipulated.

The period Meltzer covers is a depressing tale of monetary degradation. It sounds quite odd today, but Meltzer writes of the early years of the twentieth century that "many bankers, economists as well as ordinary citizens believed that the gold standard was the correct way to harmonize international monetary politics." Therefore, efforts to maintain the gold standard or some system with gold at its base met little opposition. The gold standard was widely viewed as the proper way to restrict inflation and contain the damage government could do to the currency. Meltzer notes that "the gold standard was a main issue in several presidential elections in the United States. Each time, the gold standard candidate won."

However, as we know now, such views did not last. As Meltzer observes, the "gradual dissemination of Keynesian ideas in the 1940s slowly transformed the consensus view." That is, Keynesian ideas weakened the support for the gold standard and replaced it with an activist view of the Fed as a manager of economic output and employment. Discretionary policy by government experts became the accepted, "sophisticated" view; belief in gold came to be regarded as hopelessly old-fashioned.

"The population had become more urbane and more educated," Meltzer writes, as if those characteristics and support for our monetary traditions were somehow incompatible. He is obviously a fan of the Fed, praising its work at many points. While he is critical at times, his criticism is never of the institution itself, but only of its policy errors. In other words, Meltzer would not dismantle the system, only push different buttons or pull different levers.

The history of the Fed is laced with irony. Here is an institution thought to provide stability and ballast to the economy. Yet its meddlesome ways create and amplify forces of instability and weakness. After reading Meltzer's history, one has to wonder what would have happened in the absence of the Fed's constant economic meddling. □

*Christopher Mayer is a financial writer living in Gaithersburg, Maryland*



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
Ideas On Liberty
SEPTEMBER 2004

# Traitor or Trader?

Daniel Sumner is in trouble. Sumner, an agricultural economist at UC Davis, has been accused of betraying his country. What has Sumner done? Given the charge, you might assume that he has aided terrorists or leaked nuclear secrets. Or perhaps shared some sophisticated technology with America's enemies.

Not quite. Sumner's treasonous activity came in support of Brazil, a country not usually considered a rogue state or an enemy of America. And Sumner's action didn't exactly involve advanced technology, but economic analysis.

What Sumner did was to study the effect of American cotton subsidies on the world price of cotton. Not surprisingly, Sumner found that those subsidies lowered the world price of cotton. Subsidies encourage supply. Increased supply lowers price. End of story, or so you'd think. Could there be anything more mundane?

Sumner's finding came during consulting work on behalf of Brazil in a World Trade Organization (WTO) case. Brazil was accusing the United States of an unfair trade practice. The claim was that the U.S. cotton subsidy punishes Brazilian cotton farmers.

When the WTO ruled in favor of Brazil, howls came from the California Cotton Growers Association. Sumner had helped Brazil at the expense of America! What a traitor! And the pain for the cotton growers was all the greater given that their association had been a significant donor to UC Davis. They threatened to send future money elsewhere. They also encouraged the citizens of California to let the university know what they thought of a man in the employ of the state working against what seemed to be its interests.

Even the dean of the College of Agricultural and Environmental Sciences at UC Davis weighed in. True, there was academic freedom at the school, and Sumner was free to say what he wanted. But there was something unseemly about Sumner's helping the Brazilians, said the dean. It showed bad judgment. A bit of biting the hand that feeds you. Or in this case, smashing the loom that clothes you, or something like that.

So here's a university administrator who supports taking money from a local industry, then complains that one of his faculty takes scholarly positions that are not in the interest of that industry. One might ask whether it's appropriate at all for a university to take money from what is essentially a lobbying group. Especially if it creates an expectation that the scholars there will only do research that supports the cause of the cotton growers. Maybe instead of talking about whether Sumner has betrayed his country, we ought to talk about whether the dean has betrayed his university and the taxpayers who pay him.

But let's focus on Sumner and the accusations that have been leveled against him. Is he a traitor? Did he betray his country by

*Russell Roberts (rroberts@gmu.edu) is a professor of economics at George Mason University and the J. Fish and Lillian F. Smith Distinguished Scholar at the Mercatus Center. He is the author of* The Invisible Heart: An Economic Romance.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

working for the opposition in a WTO case? Not in the literal sense. Even the cotton growers, in making the accusation, admitted it wasn't a perfect analogy. They said that if this had been a government or military matter, it would have been treason and grounds for a trial. But it's not just an imperfect analogy. It's not just a case of Sumner's activities being less harmful than someone who gives away nuclear secrets or reveals some secret code. The analogy doesn't hold at all.

The economic interests of the United States are nothing like the military or security interests of the United States. In the case of the military, our interests as Americans are monolithic. Every American citizen has the same goals of safety and security. When America has enemies, we all want those enemies defeated.

But in the case of economics, our interests are not monolithic. Policies that help one group often come at the expense of another. What helps business may harm consumers. What helps consumers may harm business. And sometimes, helping business or consumers means harming taxpayers.

Take cotton subsidies as an example. To argue that Sumner is a traitor, or even that he harmed his country, you'd have to argue that cotton subsidies are good for America. Yes, they're good for the members of the California Cotton Growers Association. But alas, there is no free lunch. The benefits of that cotton subsidy come from somewhere. They come from taxpayers, you and me. So cotton subsidies benefit U.S. cotton growers and punish American taxpayers. Along the way, they hurt cotton growers outside the United States and benefit clothes-wearers around the world.

## Strange Welfare

There are worse programs. But when you sit back and examine the whole effect of cotton subsidies, it's a strange sort of welfare program. The main beneficiaries are rich American cotton farmers and everyone who wears clothes made from cotton, rich and poor, around the world. The losers are taxpayers and poor farmers outside the United States. And the amounts gained by the winners don't equal the amounts lost by the losers. It is almost always the case with subsidies that their net effect is negative—all the extra resources that get devoted to farming exceed the benefits of the extra cotton that gets grown. Subsidies make us poorer as a nation. They persist because of the political power of the cotton growers.

Given these effects, how should we assess Sumner's contribution? I haven't actually seen his study, but my guess is that it's some version of truth-telling. The precise magnitudes of his findings may be high or low, but the fundamentals are probably right—U.S. subsidies hurt poor farmers outside the United States.

American taxpayers might want to give Sumner a medal rather than insult him if his findings hamper U.S. farm subsidies. Lower farm subsidies mean a richer United States. If this be treason, we ought to make the most of it. □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED